

CHALLENGE

THE MAGAZINE OF ECONOMIC AFFAIRS

Volume 5

1956-1957

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Institute of Economic Affairs, New York University*

KRAUS REPRINT CORPORATION
NEW YORK

1967

CHALLENGE
THE WORLD OF THE FUTURE
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Volume 2
1956-57
MAKES REPORT
NEW YORK
Printed in U.S.A.



Challenge

THE MAGAZINE OF ECONOMIC AFFAIRS

Vol. V No. 1
October, 1956

Published by
INSTITUTE OF ECONOMIC AFFAIRS
NEW YORK UNIVERSITY

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letters TO THE EDITOR

With this issue, CHALLENGE opens its pages to letters from its readers. Comment is encouraged and invited. Address: CHALLENGE, 475 Fifth Avenue, New York 17, N. Y.

Pats on the back

•I want to congratulate you on a wonderfully readable magazine which is also free from the economic ostrich-and-dodoism which is still soiling the pages of a few weekly news magazines. Some time I'll have to ask one of my psychiatrist friends for the proper term for the incurable disease afflicting so many of the old-timers. They seem to think that they can poke the sand back up into the top half of the hour glass, and abolish labor unions and the eight-hour day and get back to the gold standard and the administration of General Grant if they just keep being firm about it.

WINFIELD FOSTER
CHICAGO, ILL.

•It is with pleasure that I renew my subscription to CHALLENGE. The magazine is of excellent value. In fact, my wife, who ordinarily eschews articles of the type you print, not only reads them but understands the logic of the authors and is prepared to discuss the issues involved in detail, so that both of us attain a better understanding.

I am familiar with the purpose which underlies the publication of this magazine and it is my belief that this purpose is being adequately met, and in a surprisingly pleasing manner, as well.

C. J. HARTER
NEWPORT, R. I.

•Seldom, if ever, do I write to the editor of a magazine, but I am writing now to tell you how much CHALLENGE has come to mean to me. When I received the first issue, I was interested but not impressed. Quite naturally, I wondered how long there could appear articles of such vital interest. Yet, month after month, the magazine has grown to mean much more to me. I congratulate you on the excellent work you are doing.

RICHARD E. FARRER
HARTFORD, CONN.

•I cannot refrain from telling you how much I like CHALLENGE. When I was in high school, I flunked economics. Many years later I tackled Adam Smith and was thrown for a loss. Then came CHALLENGE, and economics began to be understandable and interesting. I like espe-

cially your *Personal Note* and *Man and the Economy* departments. It's all so down to earth and practical. Now I can go back to Adam Smith and find out what he's driving at.

DR. A. OWEN PENNEY
WASHINGTON, D. C.

•CHALLENGE has provided a wealth of information on current economic trends which have a vital effect on business. I have found the articles written to facilitate rapid reading and easy assimilation.

ROBERT J. WADDELL
WHITTIER, CALIF.

The farm problem

•I am glad to see CHALLENGE tackle the farm problem. It seems to me that all the government aid to farmers was designed to help the big farmer and do practically nothing for the small farmer who really needed help. The politicians took the same attitude that you did. The farm problem will not be solved by: "Time heals all things," as you conclude.

There are signs that the farmer is so disgusted with his self-styled leaders that he is about to hook up with the labor organizations. The labor leaders have been getting shorter hours and better working conditions and higher pay for their members. Farm leaders have been getting the opposite for their constituents.

CARL PORTZ
NEWCOMERSTOWN, OHIO

Our two-party system

•Let us hope Karl Schriftgiesser [CHALLENGE, June-July 1956] is right in his idea of the future of our two-party system. But it will not happen of itself. The mass of

the citizenry must be willing to develop its reasoning processes, which it is not doing now.

MISS O. RUDY HUELSTER
ELGIN, ILL.

Man and the Economy

•I first began subscribing to CHALLENGE in March of this year and frankly have been delighted with it ever since. I wonder whether you have any back issues for sale. I would especially like to read earlier articles in your *America 1975 series* and your sketches of early economists. You do have a very fine little magazine.

DONALD F. DIXON
NARBERTH, PA.

•I have been enjoying the series, *Man and the Economy* as a clear and concise review of economic history. Do you intend to combine the installments into a single volume? I believe it would prove to be a very useful document, particularly for school libraries, to help students in an understanding of economic life.

M. WHITNEY GREENE
PITTSBURGH, PA.

•I would like to have reprints of the entire series of *Man and the Economy*. Will such reprints be available?

W. W. MCGAUGHY
SOUTH CHARLESTON, W. VA.

(The *Man and the Economy series* was planned with the intention of combining the articles into a popular-priced book. CHALLENGE intends to complete the series in May, 1957 and hopes to be able to announce publication of the book at that time.—Ed.) ■

a personal note
from the editor

*from Suez to Jakarta,
and back to CHALLENGE*

WITH THIS issue of CHALLENGE, we start our fifth year of publishing. Ordinarily, we would not wish to make a special point of this anniversary. But there has occurred during the past several weeks, in this fitful world of ours, a number of closely related events whose economic bases harbor a veritable hornets' nest of every emotion and every ideal that has ever moved man to the heights of glory or to the depths of ignominy. We humbly suggest that CHALLENGE makes a genuine contribution to a better understanding of these events.

The manner in which we make our contribution toward the solution of the Suez hassle, and the attitude with which we view the corollary developments in Beirut and Jakarta, may very well shape the course of world history for the next fifty years. Make no mistake about this: Suez may concern the British most intimately; the Dutch may be the only ones directly involved in Indonesia's repudiation of her debts; and internationally minded oil companies may be the only victims, and rich ones at that, of Lebanon's nationalization of pipelines passing through her territory; but the policy of the United States, whether we asked for it or not, will be decisive insofar as the position of the whole West is concerned.

Foreign policy is but a reflection of our domestic attitudes. It follows that we can act with wisdom abroad only to the extent that we understand what makes us tick at home. Moreover, since economic policies and practices, at first glance, seem to monopolize the bulk of attention at home and abroad, it behooves the American public to exert some energy in unraveling the knots which for so long have distorted the threads of logical thinking about economics. Besides, how can we understand the distresses of the world if we cannot diagnose the economic sore spots which signal their existence?

In this context, it seems worth mentioning that CHALLENGE has been in the business of explaining economics for four years, and is now entering the fifth. If Colonel Nasser hadn't made his disturbing move, we probably would have forgotten all about the anniversary.

Much has been written about the Suez Canal crisis, but not many

have ventured the opinion that the loss of Suez—when it is lost—can be used to good advantage by the West. In essence, what Colonel Nasser did was to start driving the final nail into the coffin of imperialism. One thing is certain now: never again can a superior industrial power make economic arrangements with a so-called underdeveloped country without paying due respects to the nationalistic sensibilities of that country. Just plain dollars and horse sense, without the expressions of true equal status, will not win us friends. Those nations with a history of imperialism to “live down” are in a particularly vulnerable position. The Russians can practice their crushing but ahistorical form of imperialism and get away with it, for the time being, anyway.

Then what can we do with people like Nasser who will not live up to their international contracts? We really cannot do anything, unless we deal with them on a fifty-fifty basis. Men like Nasser need capital. If they do not live up to their commitments, then no one will deal with them. They are the losers. But they cannot begrudge any arrangement they agreed to on a basis of negotiation *between equals*. The idea of negotiation *between equals* is crucial to the task of bringing into equilibrium the relations of the West with the underdeveloped countries. And such equilibrium must be achieved, if western civilization is to survive.

The Suez controversy should be treated as a harbinger of worse things to come for the West—if well-thought-out steps are not taken immediately. It was typical of our lack of insight that the recent expressions of alarm from Canada over the so-called extent of American economic penetration there produced plenty of soul-searching comment in the American business press; yet, few tried to see Nasser's action from the point of view of an economically backward nation intensely proud of its national sovereignty *and* ability to commit economic or political suicide if it so wishes.

The Suez affair will be followed by others like it. They will be a terrible headache for the West. I for one would rather see them “negotiated” or written off than perpetuated to the detriment of the West's prestige. In fact, we have very little choice anyway.

It is said that the American failure to provide funds for the Great Aswan Dam drove Nasser to nationalize the Canal. Maybe so. Let us hope that if the matter of the dam comes up again, Nasser will be so matured by his playing in the Big League that he, and we, can talk plain dollars and horse sense.—H. B.



Challenge Notes

Special recessions and general prosperity; selling ideas and ideals

FIVE MONTHS AGO there were quite a few businessmen, labor leaders and economists who thought we were in for another recession. Production cutbacks and layoffs in Detroit, a slowdown in construction activity at a time when such activity is usually at peak levels, and the uncertainty caused by the President's illness, all seemed to point to a slight recession such as we experienced during late 1953 and early 1954.

Today, most experts would agree that the economic outlook for the remainder of 1956 and for most of next year is excellent. True, the Federal Reserve's Index of Industrial Production has remained fairly stationary since September 1955. But employment is at an all-time high and, with the renewed activity in the steel mills and the introduction of the 1957 auto models this fall, we can look forward to a great spurt in industrial production.

As Democratic orators are (quite properly) reminding us,

the outlook is by no means equally rosy for all sectors of the economy. In spite of recent increases in farm prices, the outlook for the small farmer is—and as CHALLENGE has consistently pointed out, will probably continue to be—dim. Technological innovations and changing consumer tastes are constantly creating new industries and making old industries obsolete. For those adversely affected, the price of such progress will undoubtedly seem excessive.

What has been so heartening about the economic scene during the postwar period generally and during the last year particularly, is that "special recessions" (and, in the case of a few industries, "special depressions") have not become general. This spring, for example, the automobile industry experienced a short inventory recession from which it has now fully recovered. This recession resulted in layoffs, production cutbacks and substantial reductions in orders for steel, rubber,

plastics and other materials used to make automobiles. And yet this recession in one of our key industries did not materially impair the health of the rest of the economy.

What happened in automobiles has happened in coal, textiles and other key industries. In no case have recessions in these industries kept the economic wheels from turning. The farm recession, which has been with us since the end of the Korean war, has not prevented the rest of the economy from participating in an unprecedented degree of prosperity. While no responsible economist would claim that we have solved the problem of the business cycle for all time, at least the entire economy no longer catches pneumonia when just one industry sneezes.

Selling ideas and ideals

THE BUSINESS of "selling" ideas and ideals (*see p. 74*) is not as easy as it sounds. Indeed, it is not at all certain that ideas can be "sold" in the same way as toothpaste or a TV set.

For one thing, there is no way of telling when your "customer" has been sold on democracy or free enterprise, etc. In merchandizing goods, the cash register is a good barometer of the effectiveness of your campaign. Ideas

and beliefs, however, do not always call for a specific kind of response. Certainly, there is no simple way of telling when you have sold somebody on an ideal like democracy.

There is another, even more fundamental difficulty. Ideas must not only be accepted, they must be understood. And there is the rub. Advertising is concerned merely with getting people to *accept* and *use* a product. As long as the customer buys, nobody cares whether he buys for the right reason or for the wrong reason.

Of course, if all we want is to sell the *labels* that cover ideas, then this is no more difficult than selling lipstick or cigarettes. A pretty girl, the picture of a flag, a catchy jingle—all the old advertising gimmicks, in fact—can be most effective in getting people to accept an idea. The propaganda of totalitarian countries is full of such examples of ideological conversions. By such techniques the Chinese peasant may have come to accept communism, but does he understand what he has accepted? We doubt it very much.

To spread democracy in this manner is surely self-defeating. The "battle for men's minds" can be won only when our ideals are not only accepted but understood as well.—M.K.

Breakdown

in our public school system?

by Haig Babian

Yes—unless we collect sufficient funds through the most effective channels of taxation

THE AMERICAN PEOPLE today have a simple choice to make. Either they allow their public school facilities to drift from bad to worse, or they develop a gnawing conscience and start some grass-roots action to put more money into their schools. It is hoped that the latter alternative will prevail. The warning sign was posted a long, long time ago. James Madison put it this way: "A popular government, without popular information or the means of acquiring it, is but a prologue to a farce or a tragedy, or perhaps both."

This September 38 million youngsters between five and seventeen years of age brought an end to the pleasantries of their summer vacations and resumed their educational endeavors in the public schools. If there were seven

million fewer of them, we could be satisfied that the country was providing adequate educational facilities. But the sorry statistics show that at present there is a shortage of 250,000 classrooms. Every ten minutes we need a new classroom to seat adequately the number of children reaching school age. By 1965 there will be 5 million more in the public schools than there are today. At the present inadequate rate of school construction, we could be 400,000 classrooms short—a backslide of 125,000 in less than a decade.

There is no telling exactly what the construction costs might come to. Estimates run anywhere from 25 to 36 billion dollars to modernize our capital plant for education. We shall do well if by 1965 we find the 13 bil-

lions necessary just to provide new space for our swelling school population—forgetting again the replacement of buildings fifty and sixty years old.

The need for qualified teachers is equally staggering. We are 135,000 short of an adequate number today. In the next ten years alone we must add to our teacher supply a number equivalent to the replacement of every teacher we have today, plus 60 per cent more. One-half of all college graduates between now and 1965 would have to go into the teaching profession to make up the deficit. The current ratio is one-fifth.

The decline in the economic status of teachers is notorious. The national average of teachers' salaries is \$4,570, or about \$88 per week; but most teachers make less than that. Starting salaries of \$1,800 per year are not uncommon. This can hardly contribute to an increase in the number of able people who choose to teach in the public school systems throughout the nation.

Not spending enough

It would seem, then, that we have not been spending enough money on our public education system. The deterioration of existing plant and equipment, cumulative during the depression

and war years, and the population onslaught since 1948 have left the nation with enormous back bills to pay. Yet, in terms of actual purchasing power, the 12 billion dollars we shall be spending this year on our public school systems buys only a little more than the 4.5 billions we spent in 1930. In the meantime, our school population has increased by one-fourth.

The application of the universally collected tax dollar towards the support of a free public school system is a traditional principle in this country which no one seriously challenges. Therefore, since it is agreed that everyone must pay for our public education system, the first thing to be considered is whether additional financial resources are generally available for the purpose of improving the school situation.

We are not a backward nation when it comes to the production of wealth. Our gross national product is increasing faster than our school population. But, we are not expending any special efforts to make up for past deficiencies in the field of education. In 1941 we were applying 3 per cent of our national income to public education. In 1956 we shall again, for the first time since 1941, be applying as much as 3 per cent of our national income

to public education. We are spending more dollars, of course, because national income has more than tripled, but they are cheaper dollars; and we have eight million more youngsters in the schools.

During the same fifteen-year period, our discretionary spending power—the money that is left after paying for the necessities of life—has increased four-fold. In the last five years alone the American people have added 60 billion dollars to their annual disposable personal income. A slight reapportionment in our habits of spending could make our educational system respectable again. But who is to do the reapportioning?

The entire question of whether there should be federal aid to public education has distracted us from efforts at the more practical levels of government. Because it is so controversial, federal aid remains too remote a possibility to be of assistance in the immediate and pressing problems of our public schools.

Problems of equalization

There are very few states and localities which can legitimately claim that they have spent as much money on their schools as they possibly can. The problems of equalization within the states

themselves have not been sufficiently studied. Until such time as the states and localities have exhausted their potential to finance themselves, a full-fledged equalization effort by the federal government would be premature and does not deserve to become the focal point of most of our thinking about financing public education.

Moreover, there is an unmistakable trend toward greater equality in income throughout the nation. Since 1940 the so-called four least-able states have increased their income per school child by 320 per cent; the four wealthiest by 160 per cent. This still leaves a disparity of more than \$4,000 per school child. But the trend toward equalization is there.

Therefore, of more immediate consequence would be an intense concentration of local and state effort to collect sufficient monies from the sources which traditionally have been responsible for the support of public education. The temptation to let Washington do the job is born of the hope that perhaps someone else will assume the cost. This attitude merely aggravates the basic illness afflicting our public education system today—namely, that on the local level we have not paid enough attention to the amounts of money that must be provided

to keep up the kind of standards we would like to maintain.

The reluctance to pay the taxes that would pay for our schools is part of the prejudice we have developed against *all* kinds of taxes—whether they be local, state or otherwise—because the federal tax bill has become enormous during the last quarter-century. There is no logic to increasing that federal tax bill further, if we already find it difficult to finance our public services—education among them—at the local level. If we want to keep at home the responsibility of financing our schools, we must collect and spend the money at home, not in Washington.

Misplaced confidence

With 62 per cent of the federal budget earmarked for defense, it is difficult to conceive of such substantial cuts in federal expenditures that a flood of money can be released for use at lower levels of government. The bold fact of the matter is, both state and local authorities must earmark more tax dollars for public education—which is another way of saying they must collect more taxes.

Unfortunately for our public school system, the traditional reliance upon local property taxes to finance public education has

proved to be a case of misplaced confidence. Property assessment rates today are as much embroiled in local political maneuverings as they are patently lacking in uniformity from one locality to another. Undervaluations are common; rent control legislation has frozen assessment rates as well as rents; and the mere possession of property does not always imply an ability to pay higher taxes in any case.

All things considered, the local property tax has not paid for, as was its wont, the bulk of the public education bill. In the years prior to 1930, property taxes accounted for 85 per cent of monies expended on public schools. Today, this share is down to 51 per cent. With local government units thusly strapped to an unprolific tax source, more and more they have looked to the state capitals for aid.

Such aid has increased, accounting for 42 per cent of the public school expenditures in 1955. In 1930 this figure was only 20 per cent. If statutory and constitutional limitations on the fiscal powers of local government—the powers to tax and to borrow—are not eased, the proportion of state aid will continue to rise.

It is significant that in the last thirty years, federal revenues have increased twenty times;

state revenues twelve times; and local revenues only 2.5 times. The power to tax is the power to pay for the services people want. An aroused public on the local level can win the right to tax themselves at home—if they want to pay for their schools. Fortunately, the federal government, through circuitous routes, foots only 3 per cent of the public education bill. It used to be 5 per cent in 1890. So Washington does not have to be bucked on this issue. State capitals are not much easier to deal with, but they are more accessible.

Are we willing to pay?

The vaster taxing powers of the state governments put the local communities in the shadow. But even in instances where non-property taxes have been locally applied, the yield has not been imaginatively used on behalf of the schools. Only 3 per cent of the national public education bill is paid for by nonproperty taxes; yet 25 per cent of all local public service expenditures comes out of the various nonproperty taxes. In other words, public education has been relegated to the least fruitful of all local tax sources, and unless local people demand the right and are willing to tax themselves more heavily through other tax-yielding avenues, they

just will not be able to withstand state, and eventually federal, pressures to take over the financing of public education. Action at the local level is imperative. And this means the people most directly touched by the problem must demonstrate that they are willing to pay.

Are we willing to pay the costs of an adequate public school system? That is a matter of conscience. It seems that as a nation we have the income and the discretionary spending power to finance and allot the necessary funds. To win the right to tax ourselves at the level of government primarily responsible for public education—that too can be done, if we insist on it. Whether we are willing to look into what must be done—and pay for it—remains to be seen.

Incidentally, last year we spent, as a nation, 9 billion dollars on alcoholic beverages; more than 32 billion dollars for private passenger automobiles; and 10 billion dollars on public education. Any economy that can afford annual consumer expenditures on that order for drinks and cars does not dare plead it cannot afford more money for its public schools. How people choose to spend their money is their business. They might choose differently, however, if they knew the facts. ■

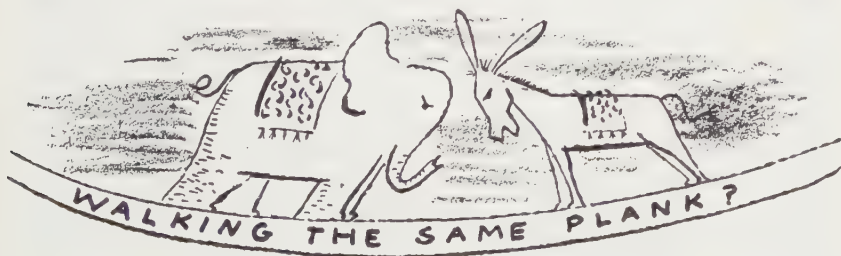
Economic issues are being lost in the shuffle of the political campaign, but they'll return to haunt the parties

Parties, Issues, Compromises

AN ECONOMIST descending, from his TV-less, newspaperless ivory tower to look at the political goings on in these United States, *anno Domini* 1956, must be a very puzzled man. Aside from the overriding question of world peace and the morally disturbing segregation problem, bread and butter issues dominate this, like most other, American election campaigns. Yet, there has been remarkably little controversy between Democrats and Republicans over concrete economic issues. The harsh words exchanged from time to time have not involved *what* has been done, but *how well* it has been done. And even here, it sometimes seems as if there is just

as much disagreement *within* the parties as *between* the parties. All this must be most confusing to our "nonpolitical" economist. What, he must wonder, are they really fighting about?

Our two-party system differs from the political line-ups in most other countries of the world in that neither party any longer represents a particular economic group—such as the farmer, business, labor, etc. Therefore, neither party seeks to advocate a political program which would appeal to a special group. American politics is remarkably free of ideological controversy. In spite of what office-hungry politicians would like to have us think, very few American election campaigns



have been fought over different ideas of government. Usually—and at no time has this been more evident than in our current “era of good feeling”—the real arguments have been over the relative ability of Republicans or Democrats to realize ideals which they now share in common.

While there is no good reason to believe that economic factors exclusively shape our political beliefs, they do exert a very powerful influence. In a rapidly expanding and continuously changing economic environment, new problems arise and old solutions must be adapted, modified or discarded. Neither the Republican nor the Democratic party bears much resemblance to the Republican or Democratic party our grandparents knew. As both President Eisenhower and Adlai Stevenson stressed in their acceptance speeches, a party which does not anticipate the changing interests of the electorate cannot, and indeed does not, deserve to hold power. Both parties have been attempting to meet those changes. To determine how, the editors of CHALLENGE interviewed Representatives and Senators and studied party platforms and speeches.

The first thing that strikes one in listening to the campaign oratory is the shift of both parties—albeit from opposite ends—to-

wards what can only be described as a political center. Both parties, for example, have come to accept the welfare legislation of the New Deal, but *both* parties also now reject some aspects of the New Deal (such as direct government operation of manufacturing enterprises in competition with private enterprises).

Both parties are committed to government control of the nation's credit system, and most of the Senators and Representatives interviewed thought that the Treasury, through its debt-funding policies, and the Federal Reserve, through its control over bank reserves and the discount rate, could and should act to moderate inflationary ups and deflationary downs of the business cycle. While Republicans, by and large, tend to place greater emphasis on economy in government and a balanced budget than the Democrats, who often regard a budget deficit as a stimulant to economic growth, both parties agree that a deficit is desirable only in times when government spending is necessary to prevent severe unemployment. Judging from Congressional replies to our queries on the subject, both parties seem to have abandoned the extreme positions which they

This analysis was prepared for our readers by the editors of CHALLENGE.

held on budget questions during the New Deal era. What is even more remarkable, many Congressmen felt that during an economic boom such as we are now experiencing, taxes should be cut *after* a budget surplus has been accumulated and not before.

Moderation and good sense

To anyone who has watched political campaigns for the last thirty years, this moderation and good sense on government fiscal policies must be very good news indeed. Even a "nonpolitical" economist could agree with that. Of course, even on the question of fiscal policy, all is not sweetness and light. Republicans may be all for a balanced budget, a reduction in the debt and tax cuts, but if they represent midwestern farm states, they do not take kindly to suggestions that our farm price support program be reduced; if they represent depressed industries, that we end the practice of special protection and subsidy; if they represent areas which depend on defense industries, that government cease giving tax favors to these industries, etc. And Democrats, who tend to be less orthodox in budget matters, nevertheless point to some of the balanced budgets which were achieved during the Truman Administration.

Nor can we conclude that the economic lessons of the deflationary Thirties and inflationary Forties are clearly understood by every Republican and Democrat. There is still a sizable number of Republicans who shudder at the very thought of increasing government intervention and expenditures during times of depression. Similarly, there are Democrats always ready to turn to government to meet any real or imagined economic need. Then there are those Senators and Representatives who are obsessed with the politically attractive notion that all sacrifices and rewards should be shared equally. One Congressman, for example, felt that in times of recession, "the government should insure that all segments of the economy recess equally."

On questions of general economic policy, therefore, both Republicans and Democrats walk on substantially the same plank. It is in their attitude towards specific economic procedures, as distinct from issues, that most of the concrete differences between the Republicans and Democrats reside. On questions like the tariff, farm policy, housing, power, labor legislation, etc., there are unquestionably important party differences. But even here rapid economic and social change is causing important shifts from

traditional party stands. Take the question of tariffs, for example. The Republican party has been historically associated with high protective tariffs; and the Democratic party with a low tariff, free-trade policy. The Republicans have traditionally been strong in industrial areas where fear of foreign competition (textiles in New England) exists, while Democrats, especially southern Democrats, represent areas where foreign export markets and cheap domestic consumer prices were the overriding issue. With the industrialization of the South and the growing importance of export markets for many eastern industries, the tariff stand of the two parties has become increasingly blurred. Representatives and Senators from both parties tend to favor those specific tariffs which would "protect" industries in their district against foreign competition.

Economic and social change have also forced both parties to modify their traditional stand on the farm question. The days when William Jennings Bryan could appeal for support from farmers who were being "crucified on a cross of gold" by eastern banking interests, has long since passed. Today, both parties actively woo the farmer, even though the farm vote is not as crucial as it once was. The

Republican party in the last four years has decided to relax its efforts to maintain farm prices at an arbitrarily fixed minimum. The Democrats are officially in favor of high price supports, but this is by no means a unanimous opinion, and there are even some Democrats (especially in urban areas) whose position on the farm question is not too different from the Administration's.

On such issues as fair trade and small business there does not seem to be a specifically Republican or Democratic position. On fair trade, for example, both parties within themselves are split right down the middle. And both parties are "for" small business, favoring some tax revisions and a tightening of anti-trust legislation to help small business maintain itself—suggestions which are not the exclusive property of either party.

Shift away from extremes

Perhaps the sharpest division is in the field of public vs. private power. Democrats, by and large, prefer to speak favorably of public development, while Republicans are generally in favor of letting private industry meet our needs. Even here, however, controversy hovers around the TVA symbol which Democrats feel is a genuine achievement and

Republicans have called "creeping socialism." In actuality, there has been a shift from extreme positions. Many Democratic Senators and Representatives queried by CHALLENGE realize that *both* private and public power are required to fill the nation's rapidly increasing energy needs, a position that is also finding increasing favor in Republican eyes. Similarly, on the question of public housing, Republicans are, in the main, more confident than Democrats that private industry can meet the housing needs of the low- and middle-income groups. On the other hand, both parties are in favor of continued extension of federal building loans and government guaranteed mortgages.

The increasing similarity of Republican and Democratic stands on economic issues is perhaps most evident in the field of labor—although the Republican position appears to have changed more in this field. The party platforms reveal that both parties are heavily committed to the adjustment of wage scales and conditions of employment through collective bargaining. The main difference between the two parties seems to be that the Democrats "unequivocally" oppose the "right-to-work laws," and Republicans, while they do not come out for the "right-to-work laws,"

are not specifically against them. Even here, however, party divisions are by no means clear-cut, for many southern Democrats are among ardent supporters of such state laws. There is also a strong undercurrent of feeling among Republicans that the labor union movement should be regulated by antitrust laws just as big business is. Southern Democrats agree; northern Democrats do not.

What conclusions may we arrive at? If there is such a large area of agreement between Democrats and Republicans on economic issues and other fundamentals, what choice is left to the voter in November? The major one is in the emphasis placed by the two parties on the procedural aspects of an economic problem. Generally, Republicans stress economy in government, and reliance on private enterprise in business. Democrats tend to emphasize service in government and somewhat greater regulation of the private economy. The fact remains that on most specific issues these differences become blurred and do not help us predict what the particular issue will be. For that, we must still study the voting record, speeches and general philosophy of the individual candidate in question. As for party-wide positions, this is the era of compromise. ■



Housing: a Problem That Demands Action

AMERICA 1975

SERIES

Unless we take positive steps fast, all signs point to increased overcrowding, inflated values, growing segregation and indifference to community life

by Richard Lee, Jr.

UNLESS drastic changes occur in the thinking processes of those who hold decisive authority in the housing field today, the national housing situation will have grievously worsened by 1975, and the face of America will be irreparably distorted. Because it has been our choice to disregard all intelligent thought on the subject, we have been launched in the direction of a serious disaster—and there seems little hope of turning back. Every sign indicates that the same things which afflict our housing today, such as overcrowding, rampantly inflated values, systems of racial and economic segregation, the absence of any community planning and a gross indifference to esthetics, may be much more intense twenty years from now than they are today.

Public ignorance of the fact that private builders and the gov-

ernment are thundering down the road towards a social and economic housing jungle presents a serious handicap to any efforts to reverse the trend. Lacking clear knowledge of what our government and private groups should do to provide a decently housed nation in the next twenty years, the public's lassitude has left a vacuum from which an intelligent housing program can hardly be expected to emerge. Until the public acquires the knowledge and becomes aroused to the needs, there exists no force to halt the plunge into chaos.

For more than a hundred years, Americans have been irresistibly attracted to the word "boom," while a more prosaic word, "plan," has been consistently regarded with abhorrence. The knowledge that booms, especially in the field of housing, invariably collapse with tragic re-

sults does nothing to cure this addiction. Most people blithely ignore the fact that every successful enterprise in which we have been engaged, including the creation of our own form of government, has contained a plan.

This curious, acquired blind spot in the American mind was never more evident than it was at the end of World War II, at the moment when we faced our greatest opportunity in decades to apply creative, rational plans to our extensive housing needs. After an extended period of restrictions on construction, the demand for housing was at its peak; money and credit had never been more abundant; technical skills were highly advanced and plentiful. It was an opportunity not only to begin eradicating some of the more dismal aspects of the American scene and to rebuild our cities towards well-defined goals, but also to create entirely new, integrated communities. Besides, as a result of a trend that had begun in the Thirties, our government was in partnership with the construction industry and therefore in a position to provide the guiding influence for such integrated programs.

In circumstances of such congeniality, it seemed impossible to

many who had fought for planning all their lives that this course would not, at last, be followed. But they failed to take into account the lure of the boom. The one incredible factor was that the federal government, instead of applying the restraining hand, was found riding merrily along on the crest of the wave, much in the manner of a gambler who follows another whose dice are hot. The opportunity for planning on a master scale, perhaps the last real one that will ever present itself, was relegated to the waste basket.

What are the housing prospects for the year 1975? It is estimated that with our constantly growing numbers and the inevitable need to replace existing homes, more than 21 million dwelling units must be constructed in the next two decades if the nation is to keep a reasonable roof over its head. Undoubtedly, our standards of what constitutes a reasonable dwelling are higher than anywhere else in the world. But this merely accentuates the need for awareness of the size of the housing job that must be tackled.

Our postwar efforts have been heavily concentrated on the upper income housing field. Yet, 45 per cent of the families of this nation earn less than eighty dollars a week. Only through coordination of building efforts and research in

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contruction techniques will we be able to devise an efficiency that can provide this group with the lower cost housing it needs. Such coordination of effort, so successful when it comes to producing automobiles and refrigerators, has been conspicuously lacking in the production of housing.

Efforts have, of course, been made in the last decade to cope with our more flagrant housing conditions, and these have been extended with much fanfare. What has not been publicized to any extent is the fact that they are totally inadequate to our present needs, much less the requirements of the future, since they brush only the periphery of the necessary goals.

Some people trying

Our public housing program has very nearly ground to a stop, and the urban redevelopment program, when it is not producing scandals and parking lots, might be suitable in Albania, but it is certainly unrealistic in the greatest nation on earth. Further, these programs, which have been developed through the perseverance of a few, have been utterly disconnected with any over-all housing program, and serve chiefly as symbols of the fact that some people are trying.

Slums, for example, are mak-

ing their appearance at a much faster rate than they are being displaced, and slum conditions have actually been aggravated by spotty undertakings.

While the crucial areas of the national housing problems were being bypassed in the years following the war, government-insured buyers encouraged builders and developers into the wildest orgy of boom-town construction this country has ever witnessed. Thousands of acres were filled with hastily constructed, crudely conceived, rootless communities. Wildly inflated values fed the fever, and once the properties were disposed of, the developers moved on to repeat the process elsewhere.

What was left behind had more the appearance of a blight than a housing development. In the rush to conquer new worlds, there was no time for thought to such things as educational facilities, proper utilities and transportation, let alone the general coherence or practicability of the community. Millions of buyers, already burdened under the debt of the cramped homes they acquired so rapidly, are still struggling with the problems left by catch-as-catch-can techniques that were supposedly rebuilding America.

The deterioration of our great urban centers, at present so shockingly advanced, also deline-

ates the shape of things to come in 1975. The day is not far off when cities will be reduced to clogged centers of commerce with only enough living space for the very rich or the very poor—a social cleavage resembling the large metropolitan centers of Europe and Asia, but sharply at variance with American tradition.

The postwar housing stampede continues to remove residents of the city farther and farther away from it, creating stratified bands of population circling its limits and forming still-born communities based entirely upon class or economic status. The social, economic and transportation problems springing from these migratory waves, already attaining chaotic proportions, will multiply a hundred times in the years to come, until the citizen of 1975 will be stopped in his tracks.

New York is typical

What is happening in New York City is typical of the rest of the nation. Out of a total of 15,000,000 New Yorkers, 7,000,000 now live outside the city—some as far as fifty miles from its center—engaging in a savage day-to-day struggle to reach their place of business and maintain a home life in the meantime. It is estimated, at the present rate of growth, that

there will be 11,000,000 persons living outside the city in 1975, and that by that time they will outnumber the city residents by 3,000,000.

The effect upon the city itself from this lopsidedness is not pleasant to contemplate. Reduced to little more than a massive entrepot and market place, its services to the remaining residents will gradually deteriorate, a process that has been underway for some years now. Industries that are able to do so will tend to remove themselves to where their workers are, rather than struggle with the growing problems which still separate them.

Several conditions must be met if we are to embark upon a housing program which is consonant with both the needs of our citizens and the age in which we live. A more productive relationship between government and the private building industry must be established. The Federal Housing Administration must return to the basic function for which it was created: to promote the building of well-designed, efficient housing, at costs which are within the means of middle-income families; and to insist upon the prescribed standards from builders who obtain FHA-guaranteed loans. Future housing programs may and should be undertaken on a planned regional basis, with the fed-

eral government acting as a co-operating agency and a clearing house of information with whose help municipalities and private builders can create integrated, functional communities.

Many ancient traditions must be broken down if such cooperative efforts are to succeed, and fresh concepts must be accepted. Zoning laws and building codes must be modernized to fit modern communities. Housing and commercial construction must be coordinated so as to produce an interrelation of their functions. Boundaries of cities established by our forefathers must be abandoned to give scope to growth, so that they may be designed to eliminate concentrations of population and their strangulatory effects. Our communities should rise around schools, churches and recreational areas, rather than the reverse process which leaves no space for such essentials.

The dream of home ownership will never vanish from the American scene, but the disillusionment which has already developed in the lower-income groups inevitably will bring a movement back to apartment rentals. Public demand will impose upon both builders and government an obligation to provide this type of housing in quantities nonexistent today. And, for many years, such construction will require

substantial subsidization on the part of the government if it is to satisfy the demand in areas where there is the greatest need.

Though it is to be hoped that they will not be bunched together, as in the past, large multiple-dwelling projects will represent the greater part of the housing picture in the cities of 1975. Unless great changes take place in our economy, the day when the average family will be able to build a dream house according to its own specifications is off somewhere in infinity.

Planning groups do exist in our cities, and they should have the support of the people. Organizations such as the National Housing Conference, the Regional Plan Association and Citizens Housing and Planning Councils, located in many of our major cities, receive little or no backing from a public which must live intimately each day with the problems of the cities. The energy which we expend in resenting our plight, unless we are to abandon hope, should be diverted to the support of these groups.

Housing is our most durable product, yielding most slowly to change. Because of this, the patterns laid down today are those with which our children and grandchildren must cope. Yet that effort to establish a pattern of change has not even begun. ■



AMERICA 1975

SERIES

Design: Emphasis On Individuality

Automation will free the consumer
from the mediocrity of present-day
mass-production uniformity

by Gordon Lippincott and
Walter Margulies

WHEN YOU consider that the design and manufacture of packages alone has grown to a twelve-billion-dollar-a-year industry, you begin to understand the importance attached to industrial design. The myriad of appliances we use, the furniture and decoration in our homes, the clothes we wear, the tools we work with, even the stores we shop in—all have become subjects for the industrial designer.

The single most important influence on design, and designers, in the next two decades is undoubtedly going to be automation. But the full potential of automation is not going to be realized overnight if we believe the initial pessimism of quite a few designers.

In one major design center, for example, we were told, "Automation is a dirty word here." To

understand the fears of these designers it is only necessary to go back to another era characterized by rapid industrial advances—the Victorian period. Those years brought forth simultaneously a blessing and a horrendous corruption of taste and beauty.

In fact, the Victorian "style" became synonymous with gimmickery as hysterical experiments produced folding beds in Gothic style, Grecian toilets in black walnut, remarkably elaborate sideboards and "patent furniture." In architecture, jigsaw and bandsaw work covered houses that boasted balustrades and grotesque turrets—the now charitably dubbed "gingerbread" houses. Since that time, designers have been fighting their way back, patiently and penitently stripping off Victorian excesses.

Must we shudder at the pos-

sibility of a similar cultural catastrophe in the coming two decades? We think not—for two reasons. One is the fact that automation will be an aid as much to the designer as it will be to the engineer. The second is the very rapidly improving taste of the consumer.

The potential benefit of automation to the designer can be glimpsed in the Buick plant in Flint, Michigan, where a computer handles the complex work of the purchasing and scheduling departments. One of the first problems this machine received was to determine the number of variations possible with the many color, trim and accessory options available to auto buyers. The answer: Buick could produce 64 million cars of which no two would be exactly alike.

Simplifies the process

This information is vital, for what was once an exceedingly complex procedure—and one that restricted the number of variations possible in a basic design—has already become a precise and more simplified process.

It works simply: new car orders are relayed from dealers to Buick's purchasing department (thank automation). A computer then compiles the amount and kind of materials needed to produce cars (automation again).

This information then passes to the scheduling department, which arranges production along Buick's eight assembly lines (with automation's speed and accuracy), according to the requirements of incoming orders.

It is not difficult to see that this development can be of inestimable value both to the designer and to the auto-buying public. The designer can offer, and the consumer can enjoy, a much wider latitude of selection.

Still further advances in our total marketing, design and production scope can be definitely forecast on the basis of machine and communications tools that are *already in existence today*.

Imagine a consumer sitting in her home before a special closed circuit television set. She has decided to go shopping. She picks up a phone attached to one side of the set, dials information and says, "I'd like to see some electric mixers."

She then turns on her set and there flash before her some sixteen brands of mixers, plus a brief motion picture showing the way each is used, product advantages, etc. All this is sent to her automatically on recorded tape.

Renowned for their interior design of the atomic submarine, *Nautilus*, the team of Lippincott and Margulies ranks among the big three in the industrial-design field today.

She makes her decision and phones in her order, specifying color, size, shape and special attachments. This order is transmitted simultaneously to the procurement and assembly line, manufactured to fill her order and shipped by air transport within twenty-four hours. The mechanics for every step in this shopping operation are in existence today.

"Trial balloons"

Thus, automation will not restrict opportunities for design expression; actually, quite the contrary. Manufacturers will be able to produce to order within a matter of hours by eliminating the needs for inventories, warehousing, jobbing, wholesaling and retailing. Without these time-consuming problems, we may be able to create an infinite number of designs, putting them into actual production as the orders come in.

Moreover, this direct consumer-to-factory shopping via TV would make it easier to send up "trial balloons" in design, because there would be no large stock losses should these experiments fail to find acceptance.

This, then, is our frame of reference—we stand at the threshold of a great design, production and marketing revolution sparked by automation. We have mentioned

the possibilities in production and marketing. What immediate effect will automation have on design and the designer?

Automation can be looked on as a wonderful new tool for future designers. The substitution of electronic control for human control in many operations will make the more complicated and difficult processes economically practical and thus free the designer from the enforced mediocrity of design which we often find in the areas of highest mass production.

In fact, distinctive, recognizable design is scarce today. Surveys conducted recently show that the average American generally cannot identify an automobile or appliance without looking at the nameplate. Appliances look so much alike that marketing specialists proved that one company's advertising was selling a competitive company's product! The intelligent use of automation can result in a breakthrough for the designer in this area.

Another impetus to good design, of course, is going to be the practical necessity, because of greater reliance on consumer TV shopping, for strong visual appeal in selling a manufactured article. To the designer, this will mean wider artistic opportunity and an increasingly important role in the business community.

And automation, with its promise of consumer-to-factory shopping, can free the manufacturer from the trap of the yearly model. In many product lines today, the need to come up with a "new look" every year results in a "new-look-by-gimmick" in which the 1957 refrigerator is actually the 1955 model with a new handle and rearranged chrome.

A moving target

This brings us to our second reason for doubting a recurrence of the extravagant bad taste of the Victorian era. The consumer is less susceptible to gimcrack and fad today. His taste is volatile, yes, and certainly today as yesterday we design for an ever-changing market. We are, in a sense, trying to hit a moving target. But all media—popular magazines, newspapers, television, radio—have been upgraded and have passed along much concrete information and style sense to the public. Mass taste may well be considerably ahead of the products available in many lines.

What then will be the effect of these trends and developments on design in 1975? We believe design will follow what can best be called a twentieth-century interpretation of the classic period. Perhaps the best way to explain this is to compare our current

architecture, interiors and furnishings with what we anticipate in two decades.

Today's mechanical, "streamlined" age is manifested very strongly in our homes and offices—straight, unbroken lines, panels of glass that emphasize further the straight, "sleek" look, geometric-patterned abstract painting, chrome and steel in abundance, and glossy plastics, vinyl-treated leathers, solid upholstery fabrics with little texture and pattern.

As it developed, this was a good trend—the final turnabout from the grotesque embellishments of past decades. But now it has reached its pinnacle. Already we see a new design concept forming, a movement that will increase in depth and scope in the next two decades.

Against straight architectural lines, for example, we see a chimney piece curving. Beams are slanted. Modern, functional tile floors are becoming wood and rustic brick. Instead of chrome, more brass will be used. Rich mahogany and teakwood will replace the more bland birch and walnut. Interesting and diverse forms and shapes will be designed as light fixtures, replacing the delicate paper lanterns and balloon lights used in modern settings today. Silks and other "slick" materials will be juxta-

posed with new textures, weaves and patterns.

Over-all, this design trend will be a combination of function and warmth, relying heavily on the personal judgment, taste and selection of the individual.

The basis for this new concept of design in living is already evident. Motivation researchers show again and again that there is a quiet but definite revolt on the part of the consumer against mass uniformity and anonymity, sterility and streamlined starkness. Feeling that individual taste and personality were so shadowed in modern design as to have almost disappeared, people have begun to equip themselves to see, evaluate, absorb and, finally, to select and judge the design, art and surroundings with which they want to live.

The hi-fi craze

Thus, recent surveys indicate a phenomenal revival of interest in art museums by the average citizen. The hi-fi craze, ironically, has resulted in a vast new appreciation of classical music that stunned the record industry. Whether we realize it or not—or

understand it—a country almost “starved” for culture is rousing itself and doing something about it. And the resulting demand for greater individuality on a higher cultural level is bound to show up on designers’ worktables.

But together with the growing appreciation of the fine arts is the increasing need of a more and more leisured people for self-expression. Universities across the country find classes in handicrafts filled to capacity as women look to handicrafts for a creative outlet. Others indulge in all kinds of do-it-yourself sprees. Designers will have to take into account this new desire for warm, personal surroundings in designing appliances and furniture.

The effect in the next two decades, then, is to be a modification of modern sleekness and functional design toward a more personal and intrinsically more beautiful design for living. Art and design standards will get higher and higher as art and design understanding increases. And 1975 should see a dramatic use being made of shape, texture and form—all in a variety which will have been made possible by the advent of automation. ■



Life Expectancy of Appliances

YOU CAN expect your washing machine to lead a useful life for from 12 to 15 years; dishwasher, 10 years; stove, 20 years; toaster, 8; and refrigerator, 15, according to Internal Revenue Service Tables.

Finding the right man to fill a management position is no easy task; the fact of the matter is, the executive must be—

MADE TO

by Stanley G. Dickinson



FINDING the right executive for the job and developing the right job for the executive are crucial skills which industry's top management still lack. This failure will continue to plague management men until they realize that as much concern must be given to *total* job training as to selection of executive material.

The tremendous cost of replacing management personnel is proof enough of the importance of making sure the employed executive is right for his job. In one corporation, for example, it costs about \$6,000 to replace a nonmanagerial employee, and \$200,000 to replace a man in middle management. In the same corporation, direct and traceable replacement costs for a top executive exceeded \$3,000,000. The

astounding fact is that it costs 500 times as much to have this executive fail as it costs to have one worker fail!

New demands upon today's executives are also exerting pressure on management to recognize the need for proper executive placement. Most corporation executives now face the challenge of mobility because of such rapid changes as acceleration, diversification, automation, merger or decentralization. Add to these the more personal problems that accompany these changes—for example, the transition from administrative to staff responsibility; from doing to delegating; and from self-reliance to dependence on others. Since the individual executive may fail at any one of these points, it becomes

essential that management select its executives carefully, provide each executive with a clearly defined job and then train him well.

Is this the way corporations generally operate? In many cases the job is what the executive finds when he gets there, and the president and board feel, although with increasing uncertainty, that they have done their best when they promise him their backing. Later, management discovers that the executive cannot handle a part of his responsibility, so an assistant is appointed to compensate for that deficiency. Or perhaps the executive takes years to learn his job by trial and error when good training would have cut that time in half.

Even this rule-of-thumb selection has been largely to the good, as is indicated by the vitality and prosperity of American business. Were it not for the new and enlarged demands for executive mobility, we might be relatively satisfied with the result and hence deaf to pleas for improvement.

But improvement *is* needed now, and the first and crucial step is to clarify the function to be filled and then to create the organization to meet it. Top level management men have a common

Stanley G. Dickinson has more than twenty-five years' experience as a consultant in management and distribution problems.

understanding of what they mean when they speak of vice president in charge of production or manufacture, finance or sales. But no single word conveys the function of bringing the right man to the right job. Perhaps we can agree upon a position of vice president in charge of management, somewhat comparable to the manager of a big league baseball club's farm system.

The climate in which such a man functions is all-important to his success. Free from any of the usual personnel manager's administrative duties, he must move in when there is difficulty in selecting the right man, and he should be active in providing adequate training in the new job. Operating in a solely consultative capacity, his job may require studying the Central Sales Division, where the turnover rate is costing the corporation \$250,000 a year above average. Again, he may work with inner management while they pick someone to supervise the purchase of a new company, after which he may go to the new company and evaluate its job performance, selection and training standards.

Our newly created vice president should be able to answer at least six questions satisfactorily to be assured that his housekeeping is in order:

(1) Are the jobs well filled,

at least at the manager and executive levels? To assure an affirmative answer, the responsibilities involved with each job should be clearly understood, and they should be such that the men ordinarily available can with reasonable effort fill the requirements. Standards of performance should emphasize what the corporation wants each man to do and on what basis he can expect recognition, compensation and promotion.

(2) Is genuine selection being practiced at the various levels? Good selection requires a delicate balance between scientific and performance tests and judgment. One of the most common mistakes is to give a testing division at headquarters the final authority on hiring and promotions.

(3) Is technical and on-the-job training carrying its share of the load? Too great a reliance upon some phase of training, especially upon pre-employment training or on-the-job training is a common error. Few corporations have satisfactorily resolved the question of what part of the training load is to be carried by texts, by supervised work projects, by pre-employment training, by class work, individual instruction, on-the-job training and refresher courses.

There are two simple methods to determine training program

failures. If the newly created vice president learns that a high percentage of those who fail in their jobs or are incompatible with immediate superiors seem to possess the same natural ingredients as those who succeed, he can with some assurance conclude that the training program is faulty. Or, an analysis of the time and level at which managers and executives reach plateaus in their effectiveness and a study of the difficulties encountered in getting them to rise from these plateaus might suggest a breakdown in some aspect of initial or refresher training.

(4) Are reservoirs of promotable candidates being built up? While regular job evaluations or fitness reports are common in business, the capable vice president in charge of management will ordinarily find no difficulty strengthening the system in use.

Appraise personnel limitations

Perhaps the greatest contribution our vice president can make is to appraise personnel limitations and then initiate action to overcome such difficulties. Consider, for example, the sales executive whose volume results are fine, but whose costs are too high, or whose men are mediocre. The time to catch and rectify such failings is when they are first

noticed, not when the executive is vice president in charge of sales.

The story of an executive I know will illustrate the value of this kind of action. Starting as a salesman twenty-five years ago, he proved that he could sell a great quantity of goods, but his individual orders were small and he had too many returns and adjustments. As head of a team of salesmen, his record was the same—numerous, small orders and many returns. For the past twelve years he has been a sales executive in one of the corporation's 160 branches. Last year the hidden cost of handling his too-small orders and too-numerous refunds was \$67,000—more than enough to pay the salary of a new vice president.

(5) Are the little annoyances removed before they become big ones? What is the company's policy toward executives who refuse promotions? What does it do with those who think they should have been promoted? How are illusions, misconceptions, paternalism and bad promises eliminated? These little annoyances, of which every corporation has its share, can assume big proportions if ignored.

(6) Will top management stay in line? If high-placed executives are not always informed of the company's program for getting the right men and the right

jobs together, the work of years can be undone by a speech, a private conversation or a chance remark. Conversely, with good staff work, the informed senior executive can greatly strengthen such programs.

The knowledge and techniques of specialists in many fields can be of immeasurable help in developing a full executive training and selection program. Competent economists, for instance, can contribute their talents by tracing to the corporation the cost of having employed improperly qualified executives. Beyond the simple, direct costs mentioned earlier, there are more subtle effects on stockholders, employees, the public in general as well as upon the quality of the product and its successful distribution. A team of psychologists and educators studying the circumstances under which executives hit a maximum of effectiveness can influence corporate policy. The medical men have a place in this, too, for one of the genuine problems in keeping the right man in the right job is that of preventing him from premature aging, physically or psychologically.

With this sort of expert help, we can count on the inherent good judgment of top executives to overcome present difficulties in the correct placement of executive personnel. ■

The Future of Small Business

Almost four million small business firms in the nation are in a competitive free-for-all that threatens their existence

BUSINESS PROSPERITY is somewhat like a bandwagon. When it gets rolling, everyone tries to climb aboard. Since 1953, as business began showing signs of improvement and the giants of business began announcing huge profits, 1,050,000 firms, most of them small, tried to squeeze on the bandwagon. Only when they were aboard did many of them realize they were on an unpredictable, speeding roller coaster, not just a joyride.

For, in the three years between 1953 and 1955, the roller coaster took a huge toll: 975,500 businesses failed or discontinued operations. They were both old and new firms, and they lost their grip for different reasons. The older firms, in general, couldn't

meet the aggressiveness and efficiency of their new competitors; the newer, in the main, lacked experience and financial reserves.

More than 4,250,000 companies remained, an increase of 74,500 since 1953, and, of this total business population, 3,964,000 were small. These small firms included not only the grocer, the carpenter, the barber and safety pin manufacturer, but all other independently owned establishments employing 250 people or less, or with assets under 250,000 dollars, or with annual sales of under one million dollars. Self-employed persons with established places of business are considered part of the small-business community; while professional people and farmers are not.



The bulk of the nation's small businesses are in two major fields: retailing and the service trades. Retailing, with 1,865,000 firms, or approximately 45 per cent of the total business population, consists of small and large shops selling everything from food to furniture. The service trades, with 746,000 firms, approximately 18 per cent of the total, include personal, repair and business services, amusements, hotels and tourist courts. The contract construction industry accounts for approximately 10 per cent of the total; manufacturing, 8 per cent; finance, real estate and insurance, 8 per cent; wholesale trades, 7 per cent.

In all these industries and trades big and small firms are to be found. The small, however, amount to 95 per cent of all businesses today. About 50 million people in the nation, the owners and their employees and their families, depend upon small business for their livelihood.

Their major complaint is that they are actually being driven off the bandwagon by the growing power of larger corporations; by their increasing inability to raise money to finance necessary expansion; and by the squeeze of higher taxes. The Senate's Select

Committee on Small Business expressed these fears succinctly: "Small business has failed to share on a relatively equal basis with big business in the present boom period. Equally disquieting is a lack of evidence that the future holds out to small businessmen any substantial hope that he, the quintessential expression of our free-enterprise system, may be able to maintain his position in an economy which offers mounting testimony that size and success, as well as size and survival, are correlative."

With an eye toward this huge bloc of votes, both parties have sought to capitalize on the complaints by promising small businessmen tax reductions, an increase in defense contracts, loans at reasonable rates and enforcement of antitrust laws to halt the trend toward "monopoly."

The administration, in addition, went beyond both party platform when the President's Cabinet Committee on Small Business, headed by Dr. Arthur F. Burns, chairman of the Council of Economic Advisors, recently recommended a fourteen-point plan to give small firms a better chance to develop in an acknowledged atmosphere of bigness.

The Cabinet Committee accepted the role of big business while trying to carve out a larger niche for smaller businesses. But

This article was researched and prepared by CHALLENGE staff members.

a major handicap faced by small business, it said, was its inability to take advantages of technological changes. The Committee only touched upon this point. Its implications, however, are far reaching. The repercussions of technological advances have had a profound effect upon the state of small business and will have a greater effect upon its future.

Most Americans have been watching technological change taking place under their very noses, in their own neighborhoods. For years they may have been patronizing the corner grocer. Then one day a supermarket arrived on the scene with a greater variety of goods (the result of improved distribution methods), streamlined selling techniques and self-selection procedures. The corner grocer often found himself unable to compete.

The technological advances in distribution were grasped by the supermarket; they could not be grasped by the small grocer. Huge grocery chains and some individuals can afford to invest 400,000 dollars to build and stock a supermarket; the small grocer usually hasn't the financial capability to invest even part of his profits in the new marketing mechanisms.

The smaller shops are also being displaced by drug, hardware, furniture, appliance and apparel

supermarkets in centrally located shopping centers. This phenomenon is revolutionizing the distribution system. It is not only leading to the elimination of the small retailing unit, but to the elimination of the chain of wholesalers and other middlemen.

In manufacturing, the profits amassed by large business have been plowed back into research and development laboratories, which in turn have poured out an amazing flow of new machines, new techniques and new products. These technological advances have enhanced the competitive strength of big business. But the smaller manufacturing firms, again, cannot deplete their profits—which amount to operating reserves in many cases—and are unable to borrow money to engage in any extensive improvement and diversification programs. They can take a few, tentative steps toward such programs, but the steps are too small to improve their competitive position appreciably. The smaller unit, thus, finds itself in an economic jungle in which it is prey to larger competitors.

A decided advantage

Then what future is there for small business? Is it merely a question of waiting for the lions to pounce? Or can small business muster sufficient resources to the

extent that it can expect to make its life and future secure?

Specialists at the Small Business Administration maintain that the small man's future depends upon his ability to ground himself in fundamental business methods and economics, and to learn advanced business techniques. These experts believe that small businessmen, because of their proximity to all phases of operation and marketing, and their proximity to the customer, have a decided advantage over managers of larger corporations.

Some small businessmen, however, are pinning their hopes for survival on the tactic of consolidating efforts in order to match the larger corporations. They are attempting to bring together other small firms, either by pooling the purchases of all the units such as was done by cooperative grocery stores during the depression, or by pooling their advertising and marketing efforts.

All these measures cannot hurt. But they cannot stop failures and disappearances; they may only retard the high rate of casualty. For as long as small businesses are unable to produce and market efficiently, as long as they continue to produce unwanted material, as long as they do not fill an economic need, they will continue to pass out of the picture.

The economy, as a whole, is

not being injured by these disappearances, though many small businessmen are. The economy, and its present prosperity, is being fed by the failures as well as the successes. At the same time, the growth of the economy is reflected in the development of small companies which *do* fill an economic need and grow to larger companies.

Small firms have, in the past, been the pioneers in the development of an endless chain of new products, and were the forerunners of the new marketing revolution we see today. Small firms paved the way for the rapid rise of the plastics manufacturing industry, and the electronics industry. Small firms will, in the future, be the first to break ground in other new fields which, at first, require little capital and much hard work.

Today such ground is being broken in the service trades, where the growth of small businesses parallels the rising leisure trend in the population. Tomorrow, as public and private construction programs increase to match the growth in population, the small businessman will find new opportunities.

The opportunities keep dangling from the tailgate of the wagon, waiting to be grabbed by the imaginative and visionary businessman. ■



STOCK Splitting

by Sam Shulsky

Corporations find it is good business to spread their stocks among millions of small investors rather than just a few large ones

STOCK SPLIT fever is at an all-time high, surpassing even the fever of 1946. In the last twelve months, nearly one hundred corporations, practically all of national renown, have jubilantly announced to their shareowners that they were to be given two or three pieces of paper for every one they already had.

Everyone seems happy; but why this rush to substitute a 200-share certificate for a 100 when there is no real gain in asset value?

In the first place, stock splitting has always been a normal concomitant of good times. Rising stock prices, usually accompanied by higher earnings and dividends, are a prerequisite of stock splitting.

Then, too, a stock split is by its very nature a "bullish" action.

For, regardless of the technical, legal differences between common shares and the senior securities—preferred, debentures and mortgage bonds—a share of stock represents, at least morally, a claim to a share of a company's earnings. Whether he has any legal claim or not, the common shareholder, like a newly hatched bird with wide-open beak, stands waiting to be fed, preferably four times a year.

No management which wants to keep shareholder good will would split its stock, attracting much public attention as well as new shareholders, if it felt it could not at least maintain its current pro-rata dividend. In fact, many managements seek to exploit further the favorable publicity of a stock split by currently increasing the dividend pay-

ment on the new shares. This has always been the significance of stock splits.

But in recent years it has become evident that stock splitting has become something more than merely a boom-time projection of a "more the merrier" philosophy into corporation finances.

The additional significance rests on the growing realization by management that with the constantly widening circle of public ownership, a stock certificate has become something more than a formal document hidden away in a bank vault.

Today stock certificates are purchased by millions of wage earners as their stake in the future and retained by millions of retired folk as a mainstay of their financial independence. And all are consumers—and voters.

The corporate share of stock has, in effect, become a two-way street, giving the corporation a claim on the loyalties of its millions of public share owners, as well as giving share owners a right to share in the profits.

Thus, the more claims a company has, the better—which leads us directly to the basic reason for stock splits: they increase the number of public shareowners

and, therefore, of potential customers. More people will buy shares selling at \$50 than will buy shares selling at \$100 or \$150. And when a \$100 or \$150 share is broken down into two or three shares of \$50 each, experience has shown that many original shareholders will sell part of the additional certificates in order to diversify their portfolios, and that these added shares will attract new holders.

In its proxy statement sent out last September, asking shareholder approval of its proposed 3-for-1 split, the General Motors Board said: "It is believed that the proposed 3-for-1 split, if approved by shareholders, will broaden the market for common shares of the company. An increase in the number of shareholders is considered to be an advantage." Certainly GM's history will bear this reasoning out.

In 1929 GM had 48,169 shareholders. Its 2¼-for-1 split the next year jumped the list to 82,414. In the fall of 1950, with the list already near 400,000, a 2-for-1 split added more than 10,000 holders almost immediately, and within the next year lifted the total 32,000 more. Again in the fall of 1955, the list stood at 513,000. The 3-for-1 split added more than 60,000 investors to the rolls within a few months.

In the proxy declaration, the

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directors did not amplify the phrase, "is considered to be an advantage." But without these various splits, the current price of a single share of GM 1929 stock would be selling at approximately \$675—a level which might attract some Cadillac buyers from among its investors' list, but hardly a substantial number of Chevrolet customers. GM has issued no study of shareholder-customers, if, in fact, it has ever made any. But it is a matter of record that Chevrolet in the first half of 1956 sold more cars than its two closest competitors in the low-priced field. Without detracting one bit from Chevrolet's inherent qualities and the value of its marketability, even its most avid salesman would not deny the advertising advantage of having nearly 600,000 shareholders receiving annual reports and dividend checks.

Lipstick to Automobiles

In a highly competitive market for everything from lipstick to automobiles, from movies to transportation, managements producing consumer items hope this increased number of shares, distributed among a wider circle of investors, will link more investor-customers to their products.

Obviously, this incentive to split is missing in the case of

corporations which do not do business with the general public. And the fact remains that many of the high-priced stocks still unsplit at this writing are the shares of companies which do not sell the majority of their products directly over the store counter—Bethlehem, Du Pont, IBM, Allied Chemical and Kennecott being a few examples.

However, there is a second value to stock splitting that even a large company which does not seek customers among the general public cannot ignore. This is the public relations advantage that goes with reducing the profit and dividend per share. Labor leaders or politicians find it much harder to make an issue of a \$2 dividend than of a \$10 payment.

Office seekers, in inveighing against a privately owned utility (always a "power trust" in political parlance) are more cautious about sounding off if there are 150,000 shareholders of the company in the state than if there were only 50,000. Similarly, a political talking point is lost when the share sells for \$35 rather than for \$140. The latter sounds like a money trust; the former is a poor man's retirement stake.

From the point of view of internal management, there are additional values to stock splitting. A stock selling at a lower price and held by more people will

make it much easier to raise new capital by offering subscriptions to present holders than if the shares are narrowly held, not as widely known and do not enjoy as liquid a market.

Secondly, where management is threatened by invasion, a wider distribution of stock makes retention of control possible with a far smaller block in the hands of management. In fact, in recent years it is no secret that "take-over" artists have sought out companies with small capitalization.

As far as the general public is concerned, the splitting of shares has a two-fold result—one favorable, the other dangerous. Because the uninformed, first-time small investor refuses to believe that he is risking as much with 100 shares of a \$5 stock as he is with 10 shares of a \$50 issue, he tends to buy low-priced issues. Failing to find many among the list of long-established, conservative companies, he can easily be sales-talked into gambling on shares with little or no value.

But there is a reverse side to this coin. Merely because a stock selling at \$20 can be bought by many more than would consider it at \$60 (even though the \$60 share represented three of the other), the \$20 certificate may well become overpriced in the rush to buy on the part of those who find it a more likely addi-

tion to their portfolio at the lower quotation.

Like all overbidding, there is often a day of reckoning. Within the last year quite a few split stocks, having become overpriced by advance rumors of splitting or during the first flush of trading in the cut-price shares, have actually shown declines. It may well be, of course, that these are stocks of companies which would have shown less strength than the general market in any case. Stock splits, per se, can be disappointing to the speculator.

One result of this flood of amoeba-like division of shares has been the virtual disappearance of the high-priced "blue chip" of the Twenties. Of the more than 1,200 odd stocks on the New York Stock Exchange, no more than two dozen common shares are selling above the 100 mark. And the American Stock Exchange has even fewer.

But the fact remains that the vast majority of modern-day shareholders love stock splits, and corporate managements will dish 'em out as often as they can.

As they do, public ownership in the country's big corporations will continue to spread. In the last four years alone, the number of stockholders has been increased by one-third, bringing the total to ten million persons—aided beyond doubt by the flood of stock splits.■

Economics in **A**ction ---

business upturn is seen

As election time approaches, economists generally agree that business couldn't be better—unless such signs as the rising consumer price index mean inflation trouble ahead. Production activity at a high level seems assured as the steel industry prepares close-to-capacity operation against a backlog of unfilled orders. Add to this Detroit's fourth quarter plans for 1.7 million car assemblies of the new 1957 models—the second highest fourth quarter production in history, topped only by last year's record of more than 1.9 million. A healthy underpinning for a business upturn is seen in such factors as the rising retail sales (up 4 per cent in the first half of the year from the like period in 1955) and a continued advance in service expenditures.

GNP on the rise

Predictions that the Federal Reserve Board's industrial production index will go as high as 145—a record figure—by December are being made even as the shutdowns of steel mills and related curtailments in iron ore and coal mining brought the July index down to 136 from June's 141. In like manner, estimates of gross national product for 1956 are running well over \$400 billion, compared to the \$390.9 billion GNP in 1955. An annual rate of \$403.4 billion was reached in the first quarter of this year and preliminary estimates for the second quarter stand at \$408.5 billion.

talk of inflation

But more and more the talk is of inflation. Whether inflationary pressures are being offset by other factors, their existence is clear. Employment hit a new record in July of 66,655,000 and—strikes notwithstanding—unemployment fell by 100,000 to 2,833,000, or about 4 per cent of the total labor

force. Higher wages and salaries pushed personal income to a \$324 billion yearly rate in June, \$1.5 billion higher than in May.

**prices at
record high**

Reflecting these and other pressures is the general rise in prices, more particularly on the consumer than on the wholesale level at this time. The consumer price index for June reached 116.2 (1947-49=100), the highest on record, and was expected to go even higher.

This index, prepared each month by the U. S. Department of Labor's Bureau of Labor Statistics, has been called "the most important single statistic issued by the government." It is an indispensable economic tool to economists and businessmen everywhere, and to the millions of workers under collective bargaining contracts with so-called "escalator" clauses, a rise or fall in the consumer price index means an automatic rise or fall in their wage rates.

**an average
market
basket**

Based on the detailed study in 1950 of the spending of 8,000 city families (with incomes under \$10,000) an average "market basket" was compiled of about 300 typical items covering such expenses as food, housing, apparel, transportation, medical care, personal care, reading and recreation and other goods and services. To calculate the important consumer price index each month, the prices of these items in 46 index cities are carefully collected, evaluated and averaged.

**effect
of the
steel strike**

The record high June index, 1.6 per cent above the figure of a year ago, was largely the result of a 2 per cent advance in food prices, although slight increases in rents, furniture and laundry soaps and detergents also contributed to the rise. On the other hand, apparel prices were unchanged on the average for the third successive month, and new and used car prices were down about one per cent. It is this picture of the index which leads to hope

that by August, when summer harvests bring lower food prices, the index will start down again. Another rise might be in the offing, however, when higher steel prices begin to show up toward the end of the year in the cost of automobiles, refrigerators, washing machines, etc.

**price
inflation**

In fact, we have no better indicator of the degree of price inflation than the consumer price index. Thus, in June 1950 before the Korean outbreak, the index stood at 101.8 (1947-49 = 100). By October 1953 it had gone up 13.6 points to the previous high of 115.4, remaining relatively stable until the latest upsurge.

* * *

WASHINGTON—All the talk these days centers around the national election in November and the Suez crisis. At this writing, "expert" opinion is that the President will be re-elected, but that Stevenson will run stronger than he did in '52.

**peace,
progress
and
prosperity**

No one dares guess how the House and Senate races will go. Republicans intend to stand on peace, progress and prosperity. The Suez crisis has demonstrated how precarious peace always is. Progress is a nebulous word and at best a relative condition; therefore, it is debatable. Prosperity is the strongest leg of the three-legged stool that the Republican party is standing on.

**the "real
statistics"**

The general prosperity is undeniable. The Democrats will make an issue out of particular sectors of the economy which they think are not so prosperous. They will make an appeal for the farm vote, the labor vote and the housewives' vote. They will hammer away at Agriculture Secretary Benson's "abandonment of the small farmer"; at the Republican party's "anti-labor attitude"; and at the rising cost of living. The Republican campaigners will be aggressively defensive

on these issues and well-armed with the "real statistics" of Republican achievement.

**the
President's
health**

The unfathomable issue, the one thing that the party heads from both sides have declared ought not to be an issue—is the state of the President's health. Republicans won't think about it. The Democrats won't mention it. The independent voter *will* think about it and *is* talking about it.

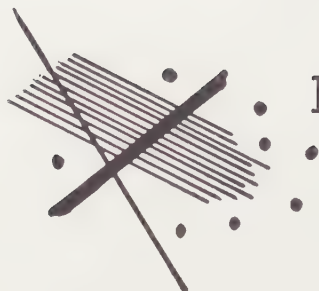
Our guess at this writing: the President will be re-elected; the Democrats will control the House of Representatives and the Senate will be split right down the middle.

**"Big Stick"
ruled out**

The initial reaction in Washington to Egypt's nationalization of the Suez Canal was one of dismay. The so-called neutral countries are generally in sympathy with Egypt, and, with our own situation in Panama, the Administration has no taste for any display of the "Big Stick." At Washington's urgings, considerable pride was swallowed and the idea of negotiating an agreement was accepted. Operational control of the Canal is an academic question anyway. In any war emergency, the West will have to safeguard its strategic interests in Suez with a combination of adequate military force and Egyptian good will. Washington's announcement of the food loan agreement with India indicates a greater reliance upon good will. It seems unlikely at this writing that the Administration will back any attempt to use a Victorian resort to force.

**program of
compensation**

It looks like Egypt will get complete administrative control of the Canal, with some sort of a showcase international body acting in an advisory capacity. It is hoped in Washington that Nasser will agree to a long-term program of compensation to the Suez Canal Company. In the end, Washington may offer Egypt financial "assistance" to pay this bill. ■



Exporting Competition

How well is the U. S. selling
the idea of free enterprise abroad?

by Irwin M. Stelzer

THERE HAS BEEN much discussion in recent months concerning the new phase into which the cold war seems to have entered. While the experts differ in their interpretations of Russia's new look, there is general agreement on at least one point: the cold war has settled down into what promises to be a drawn-out period of "competitive co-existence," in which both East and West will do their utmost to win over the noncommitted peoples of the world. It is also conceded that this struggle will, in one of its most important aspects, become a "war of systems," in which we shall have to sell our free-enterprise competitive system to other nations.

A question naturally arises: Have we, in fact, been trying to sell competition as a way of business life to other nations? If so, how have we been doing this, and have we been successful?

There can be little doubt that we have at least attempted to promote competition in other nations as an alternative to cartelism and socialism. The Thye Amendment to the Mutual Security Act of 1954 declared that it was to be the policy of the United States "to encourage the efforts of other free nations . . . to foster private initiative and competition" and "to discourage monopolistic practices." This Congressional declaration was based on several related and widely held beliefs. First, it was felt that economic progress abroad encourages productivity and reduces the threat of communism, and that competition is essential to dynamic economic progress. Second, as has been pointed out by a leading lawyer-proponent of United Nations action against restrictive business practices, Sigmund Timberg, "The more a country is enmeshed in cartel restrictions that

lower production and manipulate price, the lower will be the volume of the imports it can absorb from the United States and other countries." Finally, the feeling persists that competition would allow a more equitable distribution of the often limited national incomes of foreign nations, and thereby add to social well-being and stability.

Note among these reasons a nice mixture of idealism and commercial practicality. On the one hand, our espousal of competition rests upon a sincere belief that it will further the cause of democracy and the rise of living standards in other nations; on the other, our position is based on a realization that competition overseas provides the best atmosphere for American businessmen in quest of foreign markets.

With these assumptions of U. S. policy as a guide, the State Department and other government agencies set out to foster competition in other nations of the world. Officials of foreign governments, including England, France, Sweden and West Germany, were encouraged to come to this country to study our economic system and our antitrust laws. If the visitors' reactions

were favorable, we assisted their governments in the drafting of suitable anticartel laws and enforcement procedures. Our diplomats were also instructed to point out to foreign governments restrictive business practices that impaired their ability to export to the United States or to achieve other economic objectives. Wherever possible we have practiced competitive bidding in our overseas procurement and have encouraged other countries and international agencies to utilize competitive bidding. Finally, as Mr. Thorsten V. Kalijarvi, Acting Deputy Under-Secretary of State for Economic Affairs, pointed out to a Senate committee studying our antitrust laws, "Through technical aid programs we emphasize the need, in achieving higher levels of productivity, to eliminate restraints on production and trade."

These government policies, it should be noted, have had a good deal of added support from private groups. Walter Reuther's tour of India, for example, demonstrated that the competitive free-enterprise system has broad labor support. And American industrialists, playing host to a British study team consisting of managers, technicians and trade unionists, must have impressed upon the visitors the importance of competition—as the following

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New York Times headlines seem to suggest: "Productivity Team Lays U. S. Output Supremacy Largely to Sherman, Clayton Acts;" "Hits Own Country's Law;" "Parliament Urged to Act on Manufacturer Pacts That End Competition."

We must, of course, recognize the fact that our stand in favor of competition has not always been consistent. In our tariff programs, for example, we have often seemed to the world to be willing to sacrifice the principle of competition to our more immediate business interests. The best recent examples, of course, concern products as diverse as Swiss watches and English bicycles. Also, many critics have professed to find an inconsistency between our support of competition and the fact that we are the home country of most of the world's largest industrial organizations. Furthermore, our failure to support United Nations action against restrictive business practices seemed strange indeed to most observers, despite our (in this author's view) lame excuse that national rather than international programs can deal most effectively with restrictive business practices. Finally, it must be admitted that it has become accepted policy in this country to mitigate competition in various large sectors of the economy:

price supports for agriculture, fair trade laws for small retailers, minimum wage laws for labor and public utility status for many important industries.

"Workable" or "effective"

Although these inconsistencies cannot be ignored, it is only fair to note that the type of competition we are trying to encourage abroad is not the "perfect" competition of traditional economic theory, but some form of "workable" or "effective" competition which more closely approximates the U. S. pattern.

Given the fact that we have, although by no means consistently, attempted to export competition, have we succeeded? To answer this question fairly we must first realize that the promotion of competition is not as easy as it may appear at first glance. For one thing, we must avoid any action which could provide the slightest justification to charges that we are trying to force our way of doing things on other people. We cannot, therefore, apply direct pressure, but must rely on moral suasion and the setting of a convincing example. As guests in foreign lands we cannot be too critical of the customs and methods of our hosts. Besides, we must recognize that our business customs

are simply not suitable for adoption in other lands without some modification to meet different conditions, such as smaller market areas and a more limited supply of capital relative to labor.

Generally, our espousal of competition has met with some measures of success. First, international cartelization has been discouraged. Without American participation, effective cartelization in many fields of world trade is impossible, especially where we are the largest producer of a commodity. Second, the combination of an active antitrust policy and a high level of prosperity in the U. S. has encouraged other nations to strengthen the forces of competition in their economies. Throughout the world, many nations, including Sweden, Norway, South Africa, Denmark, Ireland and Great Britain, have adopted important antirestrictive business practices legislation; while others, Belgium, France, The Netherlands, Finland, West Germany and Israel, have such laws under active consideration.

Popularity gains abroad

Another achievement of our program in this field is the establishment of some sort of presumption in favor of competition in many nations. A public opin-

ion poll taken in West Germany highlights this point. In 1951 only 37 per cent of the persons polled stated that they were in favor of free prices, while 47 per cent declared themselves to be for fixed prices. In a similar poll taken two years later, 54 per cent declared themselves to be for a free-price system, while only 31 per cent were in favor of fixed prices. Making all due allowances for the fallibility of polls and the ambiguity of the term "free prices," there does seem to be, nevertheless, greater acceptance of price determination by market forces. Professor Henry C. Wallich of Yale University, a leading authority on the German economy, lends support to the above conclusion with the following cautious observation: "It may be reckoned as a gain . . . that the climate of German opinion today is probably less predominantly procartel than it was between the two wars. Credit for this goes in the main to men like Economics Minister Erhard, but United States anti-trust policy may claim its share."

On the other hand, it must be admitted that our policy has not been a total success. Many of the anticartel laws adopted abroad have been notably lacking in enforcement provisions. In other cases, such as Italian oil, there still seems to be little sup-

port for efforts to have private competitors replace state-sponsored monopolies.

An aid to Point Four

Furthermore, many of the laws which have been adopted cannot be directly traced to American policy. Domestic policies and the special needs of the individual countries also play their parts. Thus, even the abandonment of trade restrictions which has already occurred might not have been achieved in a period of business recession and contracting markets.

On the whole, however, America is achieving some degree of success in exporting its economic ideas as well as its goods. If our economists are correct in attributing a great deal of this country's economic progress to its insistence on maintaining competition, the spread of competitive business methods to other countries will provide a valuable aid to Point Four and other programs which, in the words of former President Truman, "set many nations on the path of rising living standards by their own efforts and by the work of their own nationals." ■



U. S. Technical Assistance Grows Overseas

THE RECENT fifth anniversary of technical cooperation between the United States and the economically less-developed areas around the world was marked by steady, if gradual, growth and success. Under the Act for Internal Development, more than 4,000 American technicians, directly employed and under contracts, are working overseas. The number achieves even greater importance when compared to the 1953 figure of 1,827 overseas American technicians.

Realizing that we cannot transmit modern technical knowledge to each of the hundreds of millions of individuals, our technicians train local people who in turn train others. In this way, the technicians multiply their effectiveness.

Work in agriculture, forestry and fishing is receiving less emphasis than in the past. The program today is moving toward greater assistance in industry and mining, transportation and public administration. Highlighting these activities during the past year was a series of courses on peaceful uses of the atom given at American universities and laboratories for foreign scientists.

In India, an American steel expert advised the management of an iron and steel plant to simplify the shapes and sizes of its products and to establish a minimum amount for production orders. These steps are expected to increase the plant output by nearly 180,000 tons annually. Encouraged by visible results such as these, host countries are today contributing by far the greater share of manpower and funds in almost every technical cooperation project.

As an independent operator and a partner with other government fiscal agencies, the "Fed" keeps the nation's money policies in line

Federal Reserve:

MONETARY WATCHDOG

by Felix Cotton



ANYTHING—from the President's health to an industry-wide strike—which bears on the nation's economic life either directly or indirectly is carefully weighed when the economists of the Federal Reserve calculate the future credit needs of the country.

The Federal Reserve has unique powers in the field of credit control; its estimates of credit needs for seasonal activity, cyclical business movement or business growth determine monetary policies which can have important repercussions throughout the nation's economy.

Such power must be exercised without bias. To that end, the Federal Reserve has been granted relative freedom from possible outside interference, whether by

government, private banking interests or any other special group. How? We'll get to that later.

When the Federal Reserve System was first set up by an act of Congress in 1913, the main purpose of its operations was to avoid money panics. This was to be done by giving the nation an elastic currency supply and by providing member banks with needed funds by discounting commercial paper. However, changing conditions have added to these the regulation of credit, which, as a means for smoothing out economic ups and downs, has today become a primary function of the Federal Reserve.

To understand how the Federal Reserve can affect the economy it is necessary to understand its relationship with member banks,

since it is through them that the Federal Reserve operates. Because the overwhelming majority of larger commercial banks, representing about 85 per cent of the total checking accounts of all banks in the United States, are members of the Federal Reserve System, a credit-easing or credit-tightening measure by the Federal Reserve can—and does—react quickly and widely on the private banking system.

Aside from a certain amount of prestige, what does a bank gain by its membership? The answer is that the Federal Reserve provides invaluable services to the private banking system. At twelve regional Federal Reserve banks, “bankers’ banks,” members can borrow needed funds on proper collateral at a bottom-level interest rate known as the discount rate. Member banks can also obtain currency from Reserve banks in the form of Federal Reserve notes, the amount paid out being charged to the member’s deposit account or “reserve” with the Reserve bank. This deposit account or “reserve,” on the other hand, is used for collecting checks, settling clearing balances and transferring funds to other cities.

In return for these privileges, member banks have certain duties. They must, for example, carefully observe the reserve re-

quirements—that is, keep on deposit with the Reserve bank a certain percentage which can vary from 14 per cent of demand deposits for a “country bank” located in a small city to 26 per cent for a bank in a “central reserve city” such as Chicago or New York. Member banks also have to subscribe to capital of the Reserve banks, on which they draw 6 per cent annual dividend. And, of course, member banks are subject to Federal Reserve examination in addition to all other legal requirements.

Influences economic trends

The power to influence economic trends lies in the Federal Reserve’s authority over the volume of reserve dollars held by member banks—that is, dollars they hold over and above their required reserves. At the present time, banks collectively can lend about six dollars for every dollar that the Federal Reserve feeds into the banking system. It is easy to see that the volume of reserve dollars bears a direct relation to the extent of bank operations.

The Federal Reserve can regulate this volume in three ways: by raising or lowering the re-

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serve requirements of member banks; by raising or lowering the discount rate (thus making it harder or easier for member banks to borrow funds); or by the purchase or sale of government securities for the account of the Reserve banks (which in effect releases money into or takes it out of the banking system).

For example, in 1953 and 1954, when a recession threatened, the Federal Reserve made reserve dollars available to member banks by reducing their reserve requirements. This was supplemented to some degree by the purchase of Treasury bills.

In 1955 and early 1956, when inflationary pressures appeared, the Federal Reserve tightened up on the flow of reserve dollars to banks by raising the discount rate for member banks.

Can create money

The Reserve banks have the power to issue Federal Reserve notes which contribute to the bulk of money in circulation. Each Reserve bank is required to maintain reserves in gold certificates of not less than 25 per cent against its deposits and 25 per cent against its Federal Reserve notes in actual circulation. At present, the gold backing behind both outstanding Federal Reserve notes and the member bank's reserve de-

posits stands at nearly 50 per cent.

An organization with such broad powers over credit, the lifeblood of business, naturally should have a large measure of independence or detachment from political and business pressures in order to do its sometimes unpopular job in an objective manner. It does.

The framers of the original law gave it freedom from dictation by the President and his administration, which at times might be tempted to pump out reserve dollars to stimulate a little inflation (particularly if a close election were coming up). The controlling Board of Governors in Washington is made up of seven men who are appointed for fourteen-year terms by the President with the consent of the Senate. These terms are staggered, however, so the Board will be free from control by any single administration.

The Fed is also protected against domination by private banking interests or any other geographic or special interest group which might conceivably use their powers for selfish ends. This concern for the widest possible representation is evident in the selection of people from different areas on the boards of directors of the Reserve banks. Private bankers are kept in the minority on the boards. Regional

interests are further protected by leaving to the regional Reserve banks the authority to initiate changes in the discount rate, subject to approval by a Board of Governors. The Board of Governors, in turn, sets reserve requirements.

There are, of course, some definite limits on the independence of the Federal Reserve System, and justly so. Congress has set forth in detail the functions of the Federal Reserve and its broad policy objectives. Its credit-control measures are carried out within the expressed limits of law. Moreover, the power of Congressional inquiry is a potential deterrent to capricious action.

A money partnership

But another and very real limitation on the operations of the Federal Reserve stems from the size of the modern federal government. The huge Treasury financing and refunding operations have a major impact on the money market, and Treasury borrowing rates set the pattern for other interest rates. The Federal Reserve could scarcely carry out its credit control measures without knowing what the Treasury was doing. Likewise, the Treasury would be running blind if it did not know what the Federal Reserve was doing. The result is

that the two agencies consult regularly on matters of mutual interest, and the actions of each affecting the money market are taken with the other's knowledge.

When emergencies arise, the Federal Reserve subordinates its independence, as in the period during and following World War II. Soon after Pearl Harbor, the Federal Reserve entered into an agreement with the Treasury to guarantee the market price of government securities by standing ready to buy all securities offered at par or better. This was necessary because of the colossal borrowing operations which the Treasury had to engage in to finance the war effort.

The World War II agreement was not terminated until March 4, 1951—and only after a long, dragged out argument between the agencies. The Federal Reserve Board, at that time, was fighting to maintain the principle that any agency operating in the field of credit control needs a large amount of independence.

The Truman Administration, pressed by the problem of financing the Korean war, wished to continue the price-support operations, which assured an interest rate of 2.5 per cent on long-term government bonds at the price of an inflationary expansion in the money supply. The Federal Reserve maintained that money ex-

pansion should be stopped in order to combat the Korean war inflation, even though it meant higher interest rates. Obviously, the Federal Reserve could not act effectively as long as it was under the obligation to peg the price of government securities. In effect, it was being forced to pursue a constant easy-money policy.

The Fed won its main point. However, there have been occurrences since which indicate that the Federal Reserve will be ready to come to the aid of the Treasury whenever it gets into trouble. For example, when a Treasury refunding offer ran into difficulty last December, the Federal Reserve came to the rescue by purchasing 167 million dollars' worth of the new securities.

The obvious necessity of co-operating with the Treasury does not reduce the independence of the Federal Reserve in its role as economic stabilizer. But just how effective is its credit policy in preventing economic disturb-

ances? The observation is sometimes made by critics of the Federal Reserve that it is more effective in a negative than in a positive way—that is, it can brake an inflation better than it can stimulate business during a recession. But then it is always easier to curb demand than to create it.

Actually, credit management, powerful as it is, cannot do the whole job once a downward plunge in business activity has gathered momentum. In such cases, credit policy must be synchronized with other measures, tax relief, public works programs and government assistance to industries, for example.

For maximum effectiveness, the Federal Reserve needs considerable leeway for independent action in its special fields and partnership with federal agencies in the formulation of general economic policies. These conditions are met, to a workable degree, by current law and practice. ■



Background of the Federal Reserve

BETWEEN 1836 and the organization of the present Federal Reserve System in 1913, various makeshift banking and financial institutions evolved, but none had any effective method of varying the supply of currency. As a result banks got into periodic difficulties due to excessive credit creation and immobility of reserves. By 1913 it was clear that stricter control was needed. The task of working out a compromise between regional decentralization and coordinated control resulted in the act establishing the Federal Reserve System.

Warren Weaver

Chairman, Committee on Genetic
Effects of Atomic Radiation,
National Academy of Sciences

How Radiation Can Affect our Children



Harold Haliday Costain

Q *Dr. Weaver, as the man who was in charge of the genetic aspects of the National Academy committee on the biological effects of atomic radiation, you are considered one of the experts in this field. As a starting point, therefore, it may be well to ask: How much do we really know about the hazards of radiation?*

A Well, that's a very good question and, in a way, a rather embarrassing one because, unfortunately, we don't really know as much as we ought to. There are two kinds of radiation hazards: one is pathological—that is, the direct effect of radiation upon the body of the individual—and the other is genetic, the effect upon the individual's offspring. Information on the first hazard has been accumulating over the last thirty-five or forty years and, of course, at an accelerated rate over the last few years.

Q *How was this information collected?*

A A great deal has arisen from the tragic experience of exposure which radiologists themselves have received. These individuals not only suffered the obvious accidents of burns and loss of fingers, sometimes even loss of a hand, but their lives have been shortened by exposure to radiation.

Q *Obviously, you haven't been able to obtain information about the genetic effects of radiation in the same manner.*

A That's correct. On the genetic side, the situation is more com-

plicated. We don't experiment with men. Human genetics is an observational science, not an experimental science. You simply have to let nature take its course and draw what inferences you can from what happens. The biologist, in the meantime, is working with all sorts of lower forms of life to get as much information as he can. But it was Dr. Herman Muller of Indiana University, who first demonstrated, I believe in 1929, that X-rays actually cause genetic mutations, or changes.

Q What have scientists been able to determine about these genetic mutations?

A I think there can be no question but that some of the physiological difficulties that man is in today are the results of unfortunate mutations. These have been induced by the radiation he gets from natural sources he's been subjected to for thousands of years.

Q What natural sources are there?

A Well, there are radioactive substances, chiefly thorium and uranium, in the soil and rocks; and there are cosmic rays. In addition to the natural sources, we now have fallout from the atomic bombs. There is, for example, strontium-90 which is a radioactive material that gets up very high and floats down very slowly. It's a very unpleasant substance. It's like calcium, and when ingested with food, it builds itself into the bone structure.

Q How does it get into our food?

A When strontium-90 falls on the earth it gets built into normal vegetation; into grass, let's say. The grass is eaten by cows. It then gets into milk, and then into cheese and other dairy products. Tests and measurements have been made which show that the strontium-90 content of cheese in our dairy states has been increasing, but very slowly, and to levels that, fortunately, need not worry us at the moment.

Q Need we worry about the future?

A We've got to think about the long future because we just cannot go on stacking this stuff up in the upper atmosphere and hence eventually in the soil, in the vegetation and in our skeletons.

Q How much radiation does the individual, as of now, absorb, and how much can he theoretically absorb?

A As far as the individual's own body is concerned, small doses of radiation cause no substantial damage though there is accumulating evidence that radiation does shorten the life span. The best present estimates are that for every roentgen—that's a unit in which radiation is measured—a person receives, whenever and however, his life may be expected to be shortened by approximately fifteen days. If he had ten roentgens, then about 150 days, on the average, would be chopped off his life.

Q *Is there no way he can rid himself of it?*

A He can't purge himself of this in any way whatsoever. Once having occurred, it is irreversible and accumulative.

Q *And one cannot develop an immunity.*

A That's correct.

How radiation could affect reproduction

Q *Just how has radiation affected genetics?*

A Every bit of radiation an individual receives in his lifetime is kept in the books against him, so to speak. From the genetic point of view it is all bad. Damage is done with any amount, however small. Any radiation which reaches the reproductive cells causes mutations which are passed on to succeeding generations. Mutations almost invariably harm the organism in which they occur.

Q *Are mutations always harmful?*

A Very rarely will a mutation turn out to be helpful, but almost all are harmful. If mutation takes place in an ordinary body cell, the effect is usually not serious. In any case, the damage is then primarily restricted to the individual in whom the change occurred.

Q *What happens when the reproductive cells receive radiation?*

A The situation is quite different. The cells are damaged and the damage can be passed on through the sperm or eggs produced by these cells, to the individual's children, thence to their children, and so on. Although many mutations disturb normal development of the embryo, it is not correct to say that all, or even most mutations result in monstrosities or freaks. In fact, the commonest mutations

are those with the smallest direct effect on any one generation—the slight detrimentals.

Q *What would be the long-term effect of radiation?*

A A population that is exposed, generation after generation, to an increased amount of radiation will experience a rising death rate and a falling birth rate because of harmful mutations, until a new equilibrium is established between the increased rates of mutation and elimination. If in this process the death rate comes to exceed the birth rate, the population will decline and eventually perish. That is one reason why we must be cautious about the total amount of radiation to which the entire population is exposed.

Q *What is the total amount a person can have?*

A Our committee's report recommends that the average person ought not to receive more than ten roentgens of radiation during his reproductive lifetime. But it should be clearly emphasized that the report in no sense intimates that ten roentgens are harmless. The ten roentgens are harmful, but not *unduly* harmful. It is merely a reasonable compromise, because it would also be a harmful limitation to say to men: "You must not have any radiation."

Q *Have you determined the average amount of radiation a person receives during a lifetime?*

A During his or her reproductive life, a person gets approximately four roentgens from natural sources. But he now gets almost as much through other sources, such as medical X-rays. The average dental X-ray, for example, delivers five roentgens to the patient's jaw, but results in only a very small dose—.005 roentgens—to the reproductive organs, which is where it counts.

Q *Can an individual calculate the amount of roentgens he receives?*

A No. There are too many technicalities involved to expect that the individual will go about, with a slide-rule, calculating this for himself. On the other hand, it seems, at least to me, inevitable that steps will be taken to require the operators of devices emitting radiation to record the information. We do, after all, have records of when we had various inoculations and when we were last vaccinated. I think public health authorities are going to have to insist upon similar records for radiation exposure. If one stops to think

of what the public health hazards of the future are likely to be, I think it is realistic to suppose that the amount of radiation exposure may very well turn out to be a more significant piece of public health information than many of the ones we now conscientiously accumulate.

Q *Is there any way we can decrease the amount of radiation we receive?*

A We can't do anything about the background radiation. We simply have to live with it. But we can do something, and certainly without handicapping the medical profession, about reducing the total amount of radiation which people have been receiving through X-rays, fluoroscopes, and so on. We simply have not realized, up to very recently, the amount of risk involved in this process. Now that we appreciate the risks involved, the medical profession is certainly going to be more careful and it is highly probable that the radiation figure can be reduced.

Q *What about radiation from the testing of atomic weapons?*

A One hopes that radiation from fallout from weapons testing will not increase. That means that one hopes that we will not have to test more and more and bigger and bigger weapons. But even more particularly, one has to be either pessimistic or prudent in connection with the future development of nuclear energy.

The problem of radioactive waste-disposal

Q *In what way?*

A If we build power plants all over the country we must do something with radioactive wastes. We can't just go dumping these wastes into the ocean. The problem of finding some place to hide the wastes is a very difficult one. There is also, of course, the chance of accident in power plants. Accidents do occur. Therefore, the development of a large number of nuclear power plants will increase the risk of radiation unless we take the necessary steps to see that these risks are avoided.

Q *What are some of the steps being sought to minimize the risks and dangers?*

A There is some promising evidence that ways will be found to decrease the damage which radiation causes to one's own body. Methods are now known which will diminish this danger provided one knows in advance that he's going to be subjected to it. He takes the medicine before the radiation occurs, rather than afterwards, so to speak. But when we examine the genetic problem, we find, at the moment, that there is absolutely nothing definite on the horizon that justifies the hope of any kind of future control.

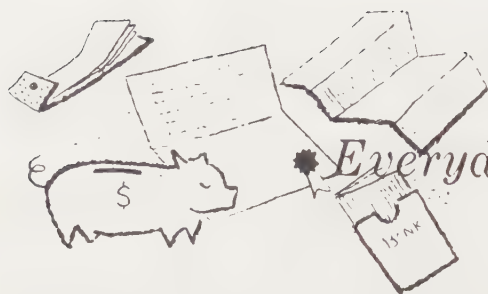
Q *You mean that you don't foresee any solution?*

A It would be, I think, an unnecessarily conservative individual who would state that man will never make any progress in this direction. The whole intellectual history of mankind has been that he has found ways out of his problems and difficulties. To state categorically that fifty years from now we will not know more than we now know about controlling genetic damage I think is unnecessarily pessimistic.

Q *What can the average individual who is not a radiation expert do to inform himself both of the dangers and protective measures he can take?*

A First, I think that any interested individual should acquaint himself with the material in the recent reports issued by the National Academy of Science. Second, the individual ought to be aware of the fact that every time he receives an X-ray, particularly if it is an X-ray of the central part of his body, he should be certain the physician who recommends that this be done is a man who understands the genetic risks involved. The individual should determine whether the physician has balanced those risks against the medical risks of *not* taking the X-ray. Third, I think every citizen has the responsibility to let his representatives in local, state and federal governments know that this is a problem he is concerned with and has a right to be informed about. We no longer live in an age when people can simply say: "This is scientific and I cannot be concerned with it." This is scientific but we cannot afford *not* to be concerned with it.

Q *Thank you, Dr. Weaver.* ■



Everyday Economics

THE LUMP-SUM death benefit ordinarily payable to the widow of an individual who qualified for Social Security cannot be granted to a wife wrongfully deserted by her husband. A recent court decision holds that such benefits can't be paid unless the wife was living with her husband, or was supported by him, at the time of his death.

A plane fact



IF YOU can find sixty-seven other people interested in flying from New York to Paris, you can charter a plane and make the trip there and back for \$250 apiece. (Fewer than sixty-eight may charter the plane, but in that case the pro rata share of each passenger will be higher.) First-class round-trip fare on a commercial trip would cost \$858.14. The one big disadvantage of the chartered trip is that the individual must go and return with the group, as scheduled before leaving the U. S.

Taxing the trip



SHOULD you receive a gift certificate bought from a travel agency you may be stuck with a federal tax when you use it. The Internal Revenue Service has ruled that the 10 per cent tax on the cost of transportation tickets doesn't apply to the cost of the gift certificate at the time it is purchased. Now it is to be collected at the time the certificate is used in exchange for the tickets.

Tips for tenants



WHEN, as a tenant, you wish to complain to the proper authorities for what you think are housing violations, you must notify the landlord first of what is wrong in the building or in your apartment. It is only when the landlord fails to comply with the law that a complaint should be made to a public department.

And defects should be reported immediately to the landlord; otherwise, he may not be responsible for any damages.

Lock your stock



OF ALL your valuable papers, stock certificates are probably the most costly to replace. To obtain a duplicate you must post a bond, obtained from a surety company, to protect the corporation in case the lost shares should turn up in the hands of a bona fide purchaser. The price of that indemnity bond will be, on the average, about 6 per cent of the market value of the stock. If you lose fifty shares of a stock selling at \$40 a share, for example, be prepared to pay about \$120.

Be sure to contact your broker as soon as you discover the loss, because if the stock has already been sold by whomever found it, you will probably have to go through a court battle to establish your rights to it.

Change of address



SHOULD your home address change, don't fail to notify your insurance company. Otherwise, a premium notice may not reach you in time and a policy may lapse. To reinstate it, you prob-

ably would have to pass a new physical. Other communications—dividend notices, notices of renewal or conversion date—may also come too late for you to act on them.

Nothing's free



IF A FIRM spruced up your home as part of a sales promotion and added awnings, slip covers or other improvements, you may have some federal taxes to pay. In such deals the individual gets the installation free in exchange for allowing his home to be used for advertising. A new tax ruling holds that the difference between the value of the product and the value of the item it replaces is considered taxable income.

Be wise, tax-wise

YOU MAY be able to help yourself tax-wise and assist your alma mater to raise funds at the same time. By giving property to a college or university you avoid the capital gains tax you would have had to pay had you sold. You also reduce the size of your estate and with it the taxes which would fall due at your death. Arrangements can be made with the college to pay you an income during your lifetime—and even to pay a life income to your survivor.—A. G.



What's Holding Back Atomic Power?

by Emile Benoit

The answer is a combination of abundant reserves in conventional fuels; cost; and the technical problem of producing such power competitively

FOR A DECADE NOW, the public has been hearing about the vast promise of atomic power for peacetime uses. Many have expected some sort of overnight revolution in our economy. But though Britain has one large-scale commercial atomic power station now going into operation and Russia has a reactor building program, perhaps twice the size of ours, planned for the next few years, as yet we have had no large-scale generation of atomic power for industrial use here.

Is our atomic program lagging unduly? What, if anything, is holding it up? Do we really *need* atomic power? What will it do to our economy when we get it?

No one can afford to be dogmatic in answering questions like these. The technological situation is changing so fast that what may look clearly true today

may look quite the opposite in a year's time. But, with that in mind, here is the picture.

The first thing we find is that the United States, unlike many other countries, has no urgent need for atomic power. According to the best authorities, the reserves of low-cost conventional fuels in the United States are sufficient to cover anticipated energy requirements for the rest of this century. This does not include additional gas and oil obtainable at no more than a third above present costs and coal obtainable at more than double present costs.

The underlying reality in looking at our energy potential is cost, and the question naturally arises whether atomic power can be made competitive. In countries where conventional fuel costs are high, atomic power may be nearly

competitive already. In the United States, however, considerable further reduction in production costs will be needed before atomic power plants can compete economically with conventional steam-electric plants.

To get a comparative picture of these power costs, consider the average cost of producing electric power in conventional plants—7.8 mills per kilowatt-hour (10 mills=1 cent). Of the 7.8 mills, 3.3 mills goes for fuel. Because atomic power plants are much like conventional plants except that they have atomic reactors instead of coal, gas or oil-fired boilers, it would seem that the chief discernible saving, if any, must come in the lower cost of fuel.

Nuclear fuel costs in the first commercial power reactor—the Shippingport reactor scheduled to begin operations in 1957—are estimated at 2.77 mills, or .53 mills less than conventional fuels. But this saving of half a mill per kilowatt-hour is insignificant. Even if nuclear fuel costs ultimately become negligible (when “breeder reactors” are manufacturing large

amounts of fuel as a byproduct) the *special* costs of fission power may still more than offset the saving on fuel. But what do we mean by *special* costs?

Some of these costs must be incurred for heavy shielding against radiation and other safety measures in the plant; for more highly trained personnel; and for special insurance and waste disposal. Industry experts, however, are particularly concerned with the cost of fabricating and reprocessing the “fuel elements”—the solid plates or bars of uranium fuel, attached to control rods, which sustain the fission reaction.

After being in reaction a while, the fuel elements get fouled up with fission waste-products and have to be shipped back to the government plant where they are manufactured to be melted down, purified of waste-products and refabricated. The operations of transporting and reprocessing of “spent” fuel elements have to be handled by remote control, and with extreme safety precautions, since the fission waste-products are apt to be highly radioactive, poisonous *and* corrosive.

All this obviously adds to the expense. In one experimental plant, for instance, the fabrication of the fuel elements cost 4.7 mills per kilowatt-hour and their reprocessing 6.2 mills. This totaled up to more than the entire

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cost of generating power in a conventional steam-electric plant.

Atomic power, therefore, can hardly be expected to be competitive in the very near future. The big hope, of course, is that basic innovations in design can be effected that will reduce costs substantially. A number of such innovations are now being tested, the most promising being a "liquid metal fuel reactor." Dispensing with solid fuel elements entirely, the uranium fuel is mixed into a circulating batch of liquefied bismuth, samples of which can be withdrawn for purification, and then reinjected into the mix without interrupting the production of power. This involves far less difficulty and expense than handling solid fuel elements. A plant embodying this principle is scheduled to be built in Orlando, Florida, by 1960 or 1961.

Taking the long view, the solving of two fundamental problems in atomic research would greatly change the atomic power picture. The first is the possibility of turning the energy from atomic fission directly into electricity without first having to go through the phase of heat energy. If a practicable process could be found, this could conceivably bring enormous cost savings by eliminating the need for a large part of the present capital equipment of power plants and by sav-

ing the large energy losses involved in transferring the energy into and out of the heat phase.

The other possibility is that of a controlled generation of energy by the process of nuclear *fusion*. The most obvious significance of this would be to extend indefinitely the world's resources of usable energy by utilizing the deuterium in sea water as a raw material. This material would be not only almost unlimited in amount but readily and cheaply obtainable. The total energy released by the process is also greater than by nuclear fission. Moreover, the fusion reaction, unlike the fission reaction, would not create the radiation hazards that add so greatly to the cost of power from fission.

No one can positively say whether either of these problems will ever be solved. Without a substantial improvement in our understanding of nuclear physics, both these possibilities appear to be beyond the horizon for now.

A sensible policy

But since we have no pressing need for atomic power and since it is doubtful whether present reactor designs could be competitive, we can safely await further improvements in reactor technology before starting a large construction program. From this

point of view, the policy of pushing atomic reactor research hard but holding off on construction looks pretty sensible.

Plans now call for an expenditure of an estimated 300 million dollars to build fifteen atomic power plants in the next six years. In order to accumulate as much research value as possible, several different reactor designs will be used. Estimated power output, however, will be under one per cent of our present conventional capacity.

Those who view this program as entirely inadequate look to the international implications, pointing out that important issues of national prestige and economic advantage are at stake. Atomic energy was first developed here and we have promised, with some fanfare, to share our advanced atomic technology with less favored nations. These nations with much higher fuel costs than ours will find atomic power necessary long before we do, and an impressive export market in atomic reactors and components is likely to develop. If we want a share in that market, we will need to encourage a flourishing reactor building industry. But such an industry can hardly exist without a backlog of domestic demand.

Through all discussion of the future of atomic power runs the question of its potential economic

effect. Will atomic energy revolutionize our economy? Actually, the effect is going to be far less dramatic than people have been led to believe. (Maybe they've *wanted* to believe it to offset the depressing spectacle of what the A-bomb can do on the military side.)

In the first place, atomic power cannot readily be applied to automobile propulsion, domestic heating and other uses which now make up about two-thirds of our total energy requirements. Second, energy costs are not as important as people suppose—they account for only about 5 per cent of industrial production costs.

The revolutionary economic impact of atomic fission probably lies much more in radiation by-products: in medicine, agriculture, chemistry, food preservation, research, industrial measurement, automation, etc.

Considered simply as a new source of power, the big contribution of atomic fission will not be so much in *reducing* the cost of power as in preventing power costs from *rising* as our low-cost hydrocarbon fuels become depleted. But whether we decide to utilize atomic energy on a large scale now or later, the fundamental economic significance remains simply this—we are not going to run out of energy for centuries. ■

For twenty-five years, the Russians have been building their heavy industry and now threaten to overtake the U. S. in production



Soviet Industrial Growth by Alex Peskin

WHEN THE Bolsheviks took over in 1917, Russia was an economically backward country. Today, less than forty years later, the Soviet Union is a mighty industrial power which, having outstripped France, Germany and England, stands second only to the United States.

This rapid industrialization of a country politically dedicated to the overthrow of capitalism has been the object of much study and speculation; for a clear knowledge of Soviet economic growth and potential can make the difference between realistic and unrealistic thinking, and perhaps between war and peace.

The first question generally raised is whether the Soviet Union has actually accomplished as much as we think it has. The

Iron Curtain has made it almost impossible for Western economists to make independent investigations, but we are told that the output of the USSR has increased more than twentyfold in the period from 1913 to 1953.

Such figures should not, however, surprise us. The Soviet Union is a Johnny-come-lately. It is now undergoing the industrial revolution which the United States and Western Europe experienced in the last century. American calculations show an annual rate of growth for the Soviet economy of from 6.5 to 7 per cent as compared with a rate of 2.5 to 3 per cent for the American economy. Or, taking industrial growth alone (without agriculture), the Soviet rate of growth was 15 per cent before

World War II and closer to 20 per cent between 1948 and 1953—almost ten times that of the American economy in that period.

But Soviet figures appear much less impressive when compared with United States figures in the last quarter of the nineteenth century, and mean little when compared with countries so highly industrialized that further expansion is more gradual.

Again, Soviet statistics are known to have serious deficiencies. For example, Soviet production figures refer to 1926-1927 as a base year. By 1930, and in much greater degree thereafter, the USSR was turning out many products never made before in that country. What did the Soviet statisticians do? The new products were valued at the prices they sold for in the first year of their production despite a steady inflation which had been taking place. Thus, new goods received a price-value out of proportion to other 1926-1927 price-values. It has had the inevitable effect of making Soviet production, as described by official Soviet figures, appear larger than it really is.

But the fact remains that the Soviet Union has been able to industrialize itself in a remark-

ably short time; thus, the more interesting question is: *How?*

Certainly the examples and the advice of technologically advanced Western countries was indispensable. In the early and middle thirties, hundreds of American, French, British and German engineers were invited to come to the USSR to work on construction projects, help set up factories and train Soviet engineers, technicians and workers. At the same time, the Soviet Union sent its engineers to Western colleges where they could study modern production techniques firsthand. In a short time, Soviet engineers and technicians gained knowledge and experience enough to carry through major engineering feats.

The other fundamental condition for the USSR's rapid industrialization is a political one. Stalin, in 1931, established it when he said: "To slacken the tempo would mean falling behind. And those who fall behind are beaten. But we do not want to be beaten. . . . In ten years at most we must make good the distance we are lagging behind the advanced capitalist countries."

The Soviet Union's state power geared the people to the political task set by Stalin. Material resources were completely controlled by the state. How these resources were to be utilized was specified by detailed economic plans which

As a Research Fellow of the Russian Research Institute, Harvard University, Alex Peskin has made numerous studies of Soviet growth.

provided the barest subsistence for the vast army of workers mobilized to pull the country up in five-year stages. Labor policy was established to make it difficult, if not impossible, for workers to leave their jobs except under state orders transferring them to other areas and other work. Long working hours were decreed. In many cases political opponents of the regime were pressed into service in labor camps. In all, immense sacrifices were demanded of the Soviet people.

But just what does such complete control of manpower and resources mean in terms of economic development? The economic policy of the Soviet government has had two major characteristics, both the result of conscious decisions—a high rate of reinvestment, and concentration on heavy industry at the expense of consumer goods.

High reinvestment rate

In the same way that a company reinvests a part of its profits when it wants to expand, the Soviet Union has maintained a consistently high rate of reinvestment in the state economy—that is, the proportion of investment to the growth of total national production. Estimated at 20 per cent over the last twenty-five

years (the war years excepted), it is higher than that of any country in the West and has been an important factor in the steady and substantial annual rise in Soviet production capacity.

On the other hand, industrialization has been rushed by a planned concentration on the production of capital goods. Most of the resources of the USSR have been directed into the building of plants and power stations for heavy industry and to the production of steel, chemicals, oil and other basic materials. The reason for this emphasis is simple: it is the fastest method the Soviets have for promoting industrial growth, at least in the short run.

It is easy to see, for example, that if consumer goods such as food and clothing were produced in a country beset by scarcities, they would quickly be used up by the population with little or no immediate accumulation of capital. But if a steel mill is built, it will produce more steel which in turn can be used to produce more capital goods.

Thus, from 1928 to 1953, the output of capital goods grew, according to Soviet statisticians, from 8.5 billion rubles to 240 billion rubles, a thirtyfold increase in 25 years, while output of consumer goods went up only eightfold. In 1928, when the first of the five-

year plans was inaugurated, capital goods constituted only 46.2 per cent of the total industrial production, consumer goods accounting for 53.8 per cent. But in 1953, after twenty-five years of total planning, capital goods constituted as much as 70 per cent of all production! According to Soviet economic policy, consumer goods can wait.

The low living standard of the Soviet population is obvious to any foreign visitor and is even described in the Soviet press. A common sight in Moscow, which is better supplied than the smaller cities, is the long queue for scarce articles. The choice of food available to the average Soviet citizen is extremely limited. When he can get new clothes, they are expensive and of poor quality. The best materials and the most highly skilled labor are, of course, directed into heavy industry.

That there is to be no change in this policy for the time being was made clear by Soviet leaders at the recent Twentieth Congress of the Communist party. An editorial in the official party newspaper, *Pravda*, put it this way: "Heavy industry has always been

and continues to be the basis of constant development of our national economy. The Communist party has always considered rapid development of heavy industry its main task."

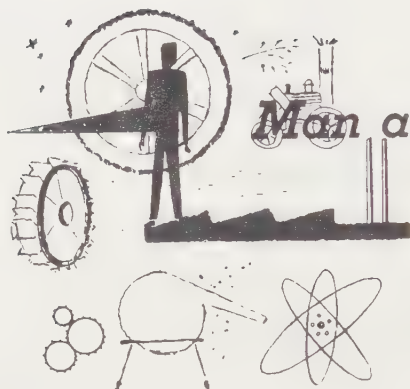
The social and political cost of such rapid industrialization is, of course, high and it has led to speculation about how long the party can continue to force the expansion of the economy at the expense of the population.

Can the discontent of the workers, apparent in scattered uprisings (in slave labor camps; in Berlin, 1953; in Poznan, 1956) be held in check by the use of force? It would be unrealistic to expect the workers to submit to a lifetime of exploitation in the vague hope that future generations might have a better life. They expect a reward for their work as do people everywhere.

But they have a long way to go. According to American calculations, the real wage of the Soviet industrial worker in 1950 was one-eighth the real wage of the American worker. As late as 1939, the Soviet worker was enjoying only one-half of the real wage of his 1913 counterpart! ■

~ *Answers to True-False Quiz*

- | | |
|----------------------------------|-----------------------------------|
| (1) False (<i>see page 13</i>) | (7) True (<i>see page 32</i>) |
| (2) False (<i>see page 18</i>) | (8) True (<i>see page 66</i>) |
| (3) True (<i>see page 49</i>) | (9) False (<i>see page 54</i>) |
| (4) True (<i>see page 8</i>) | (10) True (<i>see page 36</i>) |
| (5) False (<i>see page 44</i>) | (11) False (<i>see page 70</i>) |
| (6) False (<i>see page 62</i>) | (12) False (<i>see page 23</i>) |



Man and the Economy

No. XVII

The American institutional school examines the basis of social establishments and the effects of the machine process on them

INSTITUTIONAL economics is almost unique in the history of economic ideas because of its American origin. But more substantial claims can be made for it than nationality. Its founder was that most original of American economists, Thorstein Veblen (1857-1929). Among its adherents were such leading students of American economic history and problems as Robert F. Hoxie and John R. Commons. It influenced Wesley Clair Mitchell, founder and first Director of Research of the National Bureau of Economic Research. Through Mitchell it touched Arthur F. Burns, formerly a student and colleague of Mitchell and at present Chairman of the Council of Economic Advisors.

What were Veblen's main ideas? In a very real sense Veblen was a man of a single idea, a

key distinction which runs through all his books—even the *Theory of the Leisure Class*, written in 1899, which seems to be concerned mostly with other matters. This key notion is the sharp contrast between business enterprise and the machine process. By the latter he meant the technical methods used in producing goods, the relationships of these methods to each other in the factory, and most of all the habit of thought which working with machines or directing their operations forms. The aim of the machine process is serviceability—that is to say, the gratification of men's biological need to eat, stay warm, fulfill workmanlike instincts and satisfy their idle curiosity.

Business enterprise is something else entirely. The business man is interested only in pe-

cuniary gain—profits. Serviceability is secondary, though, other things being equal, businessmen prefer the serviceable to the useless, or, as Veblen nastily put it, "The officials of a railway commonly prefer to avoid wrecks and manslaughter, even if there is no pecuniary advantage in choosing the more humane course." But the point to which Veblen incessantly returns is the indifference of businessmen to serviceability and their exclusive concentration upon vendibility—can it be sold at a profit? Never for a moment does Veblen share the useful assumption most economists make that vendibility and serviceability run parallel to each other.

Moreover, the businessman frequently profits by causing economic disturbance. Bearing in mind the current events of his time, Veblen cited the formation of the United States Steel Corporation as a triumph of business maneuver which accomplished no industrial end, caused much incidental uncertainty in financial markets prior to its completion, and profited only the promoters. Bluntly put, the businessman in pursuit of money, according to Veblen, frequently causes unemployment, higher

prices, decreased industrial efficiency and business cycles.

What has institutionalism to do with all this? In a sense—Veblen's sense—everything so far said has been about institutions, for institutions are "prevalent habits of thought with respect to particular relations of the individual and of the community." Our analysis has centered upon habits of thought and conflicts among them. According to Veblen, the machine process clearly served human ends better than business enterprise. Therefore, on evolutionary grounds, where Veblen so often rested, the machine process deserved to triumph.

It is here, of course, that Veblen diverged most sharply from Marx. For Veblen, as for Marx, ultimately businessmen will probably no longer exist as a class. What differs is the reason. In Marx, capitalists and proletarians fight because the former own everything and the latter own nothing. In Veblen, the ground of their quarrel is the difference in the way they think. They think differently because their work induces different habits of thought. Many employees who own nothing nevertheless think like businessmen because they live by pecuniary rather than mechanical symbols. Lawyers, accountants and economists are three illustra-

This is the seventeenth article of a series in CHALLENGE dealing with the economic development of Man.

tions. On the other hand, there are some businessmen who think like workers because they are addicted to mechanical processes.

How great has been Veblen's influence? In the first place, institutional economics has remained a minority school. Economists still concentrate upon equilibrium problems. Balance is the solution they seek. Though under the influence of Keynes, they have added to their list a new problem, income determination, they continue to take the existing institutional arrangements of society as given. Veblen proved almost nothing. Where he convinced, manner, style and intuition did the job.

A second point is more difficult to express plainly. What Veblen had done was essentially the job of a lonely, brilliant thinker, a man rare in any age. He analyzed habits of thought, he employed penetrating psychological insights which inevitably hit at times far wide of their targets. There was no path for followers to tread upon. Necessarily, then, economists like Hoxie and Commons did something different: they very carefully gathered the facts about different institutions and shifted from Veblen's definition of institutions as a habit of thought to a new definition of institutions as a set of social arrangements: labor unions, farm-

ers' organizations, banks, etc. These social arrangements can be described, their evolution noted, and their consequences measured.

Value of statistics

But it is only a short step from the conventional procedures of the economic historian to the quantitative measurement of statistical data. Statistics have the advantage over economic description because they are comparable and weights can be assigned to them. This next step was taken by Wesley Clair Mitchell, who, by Veblen's statement, was his most brilliant student. In his 1913 book, the classic *Business Cycles and their Causes*, Mitchell, by the most meticulous of techniques, gathered a mass of statistical series and distilled from them a theory of the business cycle. In so doing, he drastically altered the concept of institutional economics.

Right after World War I, Mitchell organized the National Bureau of Economic Research. The contributions to economic knowledge by this organization have been great. National income measurement, productivity changes, price analysis, these and many more are topics on which the profession is indebted to Mitchell and his adroit colleagues. Note one point. However sym-

pathetic Mitchell was to his old teacher's aims, however honorable the place he accorded him in his famous Columbia University course on the history of economic thought, he retreated further and further from the large-scale analysis of habits of thought which was Veblen's delight and concentrated increasingly on large-scale statistical studies of national income, business cycles, prices and productivity.

Mitchell was skeptical

But in one final respect Veblen's influence on Mitchell, and through him on Burns, persisted. Mitchell was always skeptical of conventional economic theories—both the theories of price equilibrium in vogue and the many varieties of business cycle theory. Like Veblen, he attached more importance to the understanding of economists' preconceptions than to the analysis of their theories. Though his own work in other respects little resembled Veblen's, it was even further removed from that of the majority of economists. This distrust of the conclusiveness of abstract, equilibrium analysis can be noted in Arthur F. Burns' treatment of Keynesian analysis which he criticized on factual, empirical

grounds. This last heritage of Veblen has thus contributed much to shape National Bureau work and thinking.

Our conclusion must be somewhat paradoxical. Veblen, as an economist operating upon his colleagues, was clearly a failure. There is no school of orthodox Veblenites, nor was there ever such a school. Yet parts of Veblen's message have percolated through. The language and the social criticism have endured. Moreover, if economists largely ignore him, sociologists have paused to listen. Such leaders of their profession as C. Wright Mills and David Riesman have found Veblen useful.

Nor is this all. Something of Veblen lingered with Mitchell, who powerfully influenced quantitative economic research. Although Veblen would surely have regarded the National Bureau of Economic Research as an odd monument, it is fair, nonetheless, to give him some credit for its origin. We must also grant him some share in the achievements of Mitchell's distinguished students, among them Arthur F. Burns, Joseph Dorfman and Eli Ginzberg. Small men disappear from the record of intellectual history. Larger men find their message put to strange uses. ■

NEXT MONTH: Alfred Marshall, the last great economist
to attempt a general theory of economic behavior

Advertising's New Arena

Using the techniques it applies to sell soap and beer, advertising has entered the ideological battleground in an attempt to win the minds of men

by Howard Bernard Shaw

N O LESS a personage than President Eisenhower's deputy assistant has suggested that advertising ought to be more aggressive in the worldwide battle for men's minds. Proponents say that advertising is ideally suited to this function. Critics respond with a skeptical and loud "no." The truth lies somewhere between these two extremes.

The question is, can the advertising skills used to sell products and services be applied with equal force to the greater acceptance of ideas? Otto Kleppner, author of *Advertising Procedure*, in perhaps the clearest statement on the subject, declared that "the function of advertising in our economy is to help create and distribute the better values which men offer in competition for the buyer's selection." Many feel, in fact, that advertising has made a significant contribution in helping

to achieve America's high standard of living.

However, it has not always been possible to pin down the precise results gained from advertising. Donald B. Armstrong, Jr., vice president of McCann-Erickson Advertising, put his finger on the problem when he said, "If the selling process is basically a process of changing people's minds, then advertising people should . . . have a thorough understanding of what is going on in terms of prejudice, belief or custom in the minds of the people they must persuade." This, of course, is not easy knowledge to come by.

Critics of advertising insist that it should not try to persuade or "change people's minds." They maintain that the only valid function of advertising is to disseminate information about new inventions and products. Aside

from this constructive, informative and useful work, the critics say, the rest of commercial advertising is competitive, combative, manipulative, self-canceling, retaliatory and sometimes fraudulent. It is hardly the one to lead a struggle for anyone's mind, they believe.

The opposite view of advertising has been taken by Professor David M. Potter of Yale University in his book, *People of Plenty*. Prof. Potter's thesis is that the "abundance of goods has been a major force in American history. . . . No force can be regarded as of major historic importance unless it has developed its own characteristic institution. . . . If we seek an institution brought into being by abundance, and one peculiarly American, we will find it in modern advertising." Prof. Potter goes on to state that "like school and church, advertising is an institution of social control."

With such differences of opinion, is it any wonder that advertising has not been given prime consideration in such battles for men's minds as the free economy, communism vs. democracy, voting, NATO? The average man, while not likely to label all advertising fraudulent nor, on the other hand, to be as

enthusiastic as Prof. Potter, raises some very good questions.

First, how can the degree of acceptance of an idea be measured? Product advertising is considered successful when the product has a large and steady sale. But with an idea, this measurement is not quite so simple. Can we determine at what point a person understands? What does he believe? Did he really change his attitude and belief?

But surely we should not indict advertising because we can't accurately measure its degree of effectiveness. It would seem that nothing short of a mind-reading machine could measure the acceptance of an idea.

Nevertheless, some indication of acceptance can be measured. For example, an exhibit dramatizing President Eisenhower's "open skies" proposal in the UN was prepared by the United States Information Agency and shown to the UN delegates. Is it not possible that this exhibit played a part in the overwhelming vote a few days later to give priority to the U. S. proposal in the Disarmament Commission?

Another question the man-on-the-street tends to raise is this: "Doesn't advertising involve selection of facts and thus only one side of an idea? How can one get the whole picture?" Generally, one must read many stories

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in newspapers and magazines to get both sides of a subject. It is not advertising's job or purpose to do this. Rather, advertising seeks to present one side or the other, rarely both, selecting those parts of an idea which enhance public acceptance.

Honesty in approach

But how can we be sure that the advertiser of an idea has been honest in his approach to his subject? Integrity can best be assured by its sponsor. The case of United Aircraft Corporation's NATO campaign illustrates how a responsible advertiser presents a public service idea. The company's president was inspired by an appeal by General Alfred M. Gruenther to publicize NATO to its member countries. No fewer than nineteen meetings were held by the company and their advertising agency, culminating finally in a trip across the Atlantic to meet with Gen. Gruenther and his staff for approval of the series. In full-page ads the advertising campaign stressed the values of organized international cooperation rather than the virtues of the company's own products. Surely, such consideration assured the public of the company's integrity.

The need has long existed for a more extensive presentation of

free-world, free-enterprise thinking to combat Communist propaganda in Europe. But here the major stumbling block is the tremendously sensitive area of discussion, bordering on psychological warfare. Public service advertising is not yet very skillful at conveying complex ideas, not because it does not know how but because of limited space or time.

Fortune magazine's publisher, C. D. Jackson, criticized free-enterprise advertising. "The atmosphere to be created," he said, "is one of knowledge, understanding and respect. . . . A great many [advertisements] that we have seen were either inadequate or aroused an effect opposite to the one desired." However, ideas have always been difficult to handle, even for the editorial side of the communications field. As greater knowledge is gained about how to present the free economy story we can expect to see more intelligent and widespread campaigns. For example, Republic Steel Corporation's series on the American way of life produced requests for 130,000 reprints; the famous "Four Freedoms" ad by America's electric light and power companies drew 250,000 requests for reprints.

Five million pieces of mail were used by the Texas and Pacific Railway Company in a campaign to develop a greater public awareness

of the spiritual basis of a free society. A report on our economic system, "The Miracle of America," prepared by the Advertising Council, has already hit a circulation of 7,500,000.

The private, nonprofit, nonpartisan Advertising Council is perhaps the most interesting example of an organization directly concerned with the selling of ideas. Supported by advertisers, advertising agencies and the advertising media groups for the purpose of utilizing advertising in the solution of national problems, it has produced campaigns with such themes as getting more people to church, stirring greater interest in good schools and, in the last three elections, has worked with the American Heritage Foundation in a widely acclaimed effort to get out the vote.

Measuring effectiveness

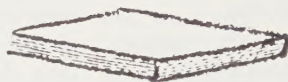
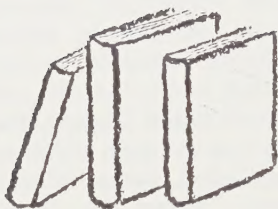
It is almost impossible to determine the effectiveness of such campaigns, but the success of the Voice of America in selling "the decent side of the United States" can be measured in two ways. The first is the number of attacks by the Communist press: 500 times in one year. The sec-

ond is the number of requests for program bulletins by listeners: 1,200,000 booklets mailed. On the other hand, lecturer and globetrotter Richard Thomas, just back from a world tour which included the United States Information Agency "Atoms For Peace" exhibit in New Delhi, India, noted the attendance figure of 1,700,000 and complained that our exhibit would have been even more effective if it had been keyed to a nonprofessional audience. Thomas found it a bit too technical for the rice pickers and carpet workers of India who lack even a basic education.

While the advertising of ideas presents many problems, encouraging attempts have been made to harness the special techniques of advertising—repetition, emphasis and precision—to present ideas, to advance philosophic concepts, to inform and influence public opinion, or to perform some broad public service. This is a very significant phenomenon.

With the tremendous advances being made in psychology and sociology, with new tools such as motivational research, successful advertising of ideas in the public service may not be too far away. ■

MORE THAN nine billion dollars was spent for advertising in 1955, a figure almost triple the 3.36 billion spent in 1946. The largest chunk, 3.7 billion dollars, was spent in newspapers. Direct mail advertising, with expenditures of 1.27 billion, came in second.



READING REPORT

On the History and Method of Economics. Frank H. Knight. 309 pp. Chicago: The University of Chicago Press. \$6.00.

● Although not easy reading, this book is an eye-opener for those interested in the kinds of problems economists ponder. Professor Knight is one of America's leading theoretical economists, but his mind ranges over questions of sociology, politics and ethics as well. His discussion of such noneconomic topics as the purpose of the state and the reasons for economic illiteracy are most interesting.

* * *

The Baseball Player: An Economic Study. Paul M. Gregory. 213 pp. Washington: Public Affairs Press. \$3.75.

● Digging beneath the superficial glamor of America's national sport, economist and social philosopher Paul Gregory offers a sober view of human relations in the baseball industry. Professor Gregory explores and evaluates the struggle for financial rewards and social recognition, the relationships among players, owners, managers, sports-writers and fans, and the significance of the bonus system, gate receipts and the reserve clause. Looks like a sure hit.

Executives: Making Them Click. Joseph Dean Edwards. 242 pp. New York: University Books. \$4.00.

● With a wit that must make him an asset to any executive meeting, the author, a management consultant, sets out to explode the "myth" of the executive development program. There can be no "magic formula," he says, as he proceeds to explain his own plan—"custom tailoring" of executives. In the process he gives more pat answers for executive development problems than have probably ever been pulled together in one place.

* * *

The Big Business Executive. Mabel Newcomer. 164 pp. New York: Columbia University Press. \$4.00.

● The change in the last fifty years from the era of the tycoon to the era of the "professional administrator" is recorded in a statistical analysis of the backgrounds and business careers of the men who reached the top from 1900 to 1950. Among the wealth of interesting information one finds data on social and national origins (wealthy men have a better chance and foreigners are few), education (college becomes more and more important), religion and politics (predominantly Episcopalian and Republican). ■



Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 69.

- | | |
|---|--|
| <p>(1) There are basic economic differences in the programs of the Democratic and Republican parties.
True ☐ False ☐</p> <p>(2) Despite our still inadequate housing program, slums are gradually disappearing.
True ☐ False ☐</p> <p>(3) The Federal Reserve can more easily brake an inflation than stimulate business during a recession.
True ☐ False ☐</p> <p>(4) The federal government's share of our total educational budget has decreased since 1900.
True ☐ False ☐</p> <p>(5) We have not attempted to export the idea of competition as part of our economic aid program.
True ☐ False ☐</p> <p>(6) America's conventional energy resources are being depleted so rapidly that atomic energy will shortly be a necessity.
True ☐ False ☐</p> | <p>(7) The number of small businesses has been increasing in the past three years.
True ☐ False ☐</p> <p>(8) The Soviet rate of capital re-investment is higher than that of any country in the West.
True ☐ False ☐</p> <p>(9) The radiation danger of X-rays can be minimized by taking many, small doses rather than few, concentrated ones.
True ☐ False ☐</p> <p>(10) The base of stock ownership has been broadened by stock splitting.
True ☐ False ☐</p> <p>(11) Thorstein Veblen was the first American economist to say that the search for profits usually coincides with public service.
True ☐ False ☐</p> <p>(12) Design will probably be one of the few areas in American life relatively untouched by automation.
True ☐ False ☐</p> |
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Dept. of Better Mousetraps

Around the House: a liquid waterproofer sprayed on hats, shoes or cloths of all kinds to protect your clothes against sudden showers . . . a do-it-yourself chair or couch webbing kit . . . a ceramic two-decker pot that grows a plant in the upper story and holds a reservoir of water in the lower one from which the plant draws moisture through a spun-glass wick . . . to solve today's inadequate wiring problem, an "appliance center," a unit that provides sufficient current simultaneously for five different electric housewares . . . and a vacuum cleaner that literally "floats on air"—the canister is suspended a fraction of an inch off the floor by a powerful jet exhaust.

* * *

Sportman's Delight: an aerosol spray that stays on bait for several hours and lures fish by its odor . . . another spray, this one to waterproof artificial flies . . . a pint-size vacuum bottle to strap onto a golf bag . . . and a Tee Toter, a plastic gadget which ejects golf tees into the ground at the same preselected height each time.

* * *

Around the Kitchen: a "Toast-R-Oven," which makes regular toast on top and has a drawer-type oven below for bulky things such as muffins or biscuits; also ideal for making hot canapes right at the table . . .

and a drinking straw that can be bent without clogging it.

* * *

Personal Business: a woman's umbrella with a transparent plastic panel so you can see where you're going . . . binoculars that fold up no larger than a compact . . . for amateur photographers, a movie camera with a lense that adjusts automatically for all lighting conditions, even for shots of an object moving from light into shadow . . . a shaver that winds up like a watch and can be used anywhere without electricity, wires or water . . . and for the roaring 50s, a full-length man's coat made of a fur-like synthetic fabric.

* * *

From the World of Industry: a typewriter attachment that permits copies without carbon paper . . . a pocket tape recorder that weighs 2½ pounds and gives a full hour of recording . . . a desk that can be converted into a conference table . . . a portable hospital scale to weigh patients in bed. The bed and patient are lifted off the floor by air pressure and weighted electrically, the scale deducting the weight of the bed and the bed clothes . . . to protect materials, such as rubber, that deteriorate under ultraviolet radiation, industrial window material that stops ultraviolet rays . . . and vending machines that offer hot-plate lunches. ■

